

Untangling the Qualitative Aspect of Strategic Philanthropy on Managerial Efficiency and Profitability

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Abstract:

The main purpose of this study is to measure the correlation by the use of qualitative measurement in relation to the impact of strategic philanthropy on firm's profitability. This research uses Primary Data Collection Method through Questionnaire to collect professional responses from top level personnel and executives working in various industries. Questionnaires were carefully designed and sent to forty managers to seek their candid and professional opinions to the research topic. Thirty managers responded within the timeline given (response rate of 75%). The remaining 25% who failed to answer were validated with net income data from ten giants corporations who saw significant positive increase of their net income by participating in some form of strategic philanthropy within the four-year period from 2008-2011. The responses were categorized and analyses were performed on the responses and the information that were collected to determine data reliability and usefulness. The research findings reveal that strategic philanthropy have direct relationship with firms profitability as the number of years of firm's adaptation of the strategy and managerial efficiency increases. Majority of the respondents were very much satisfied with the way their firms adopted the managerial strategy to maintain their corporate goals.

Keywords: Qualitative research, primary data, Questionnaire, research findings

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I. INTRODUCTION

I.1 Research Backgrounds

The subject of strategic philanthropy has received some attention from researchers but not in qualitative measure. Many researchers use quantitative approach to measure statistically its impacts on profitability. The actual importance of this little research of the corporate philanthropic; however is to examine the state of importance of the strategy by the use of qualitative measurement through descriptive analysis to measure strategic philanthropy on managerial efficiency and profitability.

I.2 Statement of the problem

Academic researchers have stated last few years have been very rough on U.S corporations and their charitable giving programs has decline since 2005. Then came the onset of recession in 2008 a year during which corporate profits shrank and stock prices plunged expecting philanthropic action to either reduce drastically or not even adopted at all by the corporations.

Therefore, there remains a gap in the research to assess the situation of philanthropy aftermath of recession to study whether the same trend continues with the great awakening of the financial loss of the corporations.

I.3 Purpose of the study

The purpose of this study examines the critical changes of strategic philanthropy in the selected executives representing corporations in the information technology industry in the United States after post recession between 2008-2011. Strategic philanthropy is a unique and powerful way where corporations change their philosophy of giving from one of pure generosity to one that aligned charity with commercial objectives.

I.4 Research Questions and Hypothesis

It is popularly asserted that the existence of profit making firm is the maximization of shareholders interest. Non-profit objective is in the similar direction believes to meet the goal of the funders or donors. However, Corporations achieved these by being a good corporate citizen through specially designed strategic philanthropic programs.

Therefore, the hypothesis of this study is simply:

Will the adaptation of strategic philanthropy increases managerial efficiency and profitability ?

I.5 Significance of the study

This study makes a unique contribution to academic literature in that it examines philanthropic activities within the period of the recession which were marked by fierce economic downturn, acute corporate losses and mass laid off and collapse of many too big to fail corporations. The ultimate goal is to find the significant impact of the strategic philanthropic work during the hard times of recession and its impact on corporate profitability using qualitative measure.

It also aims to contribute to academic literature and bridge the knowledge gap on strategic philanthropy which can be very resourceful to future studies in terms of organization and the level of academic citation for future research purposes.

II. LITERATURE REVIEWS

II.1 Increasing managerial efficiency and profitability through the management of Transactional cost, agency cost and institutional cost

Andreasen (1999) emphasized that, indeed, the application of transaction cost analysis theory to corporate philanthropy represents an important step in addressing the calls for increasing the professionalization of both the management and corporate support of charities. However, Ullmann (1985) examined that the agency theory perspective puts more weight on conflicting interests between top management and shareholders and argues firms incur unnecessary costs by giving away shareholders' money. Further, although the theoretical foundation of agency theory strongly assumes self-interest maximization and suggests the necessity of a system of checks and balances. Dacin, Goodstein and Scott (2002), posit that institutional theory has risen to prominence as popular and powerful explanation for both individual and organizational action. Dominic (2010) mentioned that institutional and cultural settings can also shape corporate philanthropy. His main contribution relates to the importance of ownership effects on corporate philanthropy. He found a positive and significant relationship between corporate giving and foreign ownership. The positive effects of foreign ownership on corporate philanthropy can be explained by several factors. It may be that the long-term value, either financial benefit or strategic goodwill, from corporate philanthropy is valued more by long term investors such as foreign institutional investors. Within institutional philanthropy there has been a move to gain greater levels of control over the entire grant making process. Under institutional theory, DiMaggio and Powell, (1983) said "illegitimacy" results in isomorphic pressures on organizations that operate outside of accepted norms. Davis, Schoorman and Donaldson, (1997) added that in that sense, the primary difference between agency and stewardship theory lies in the mechanisms of risk management: agency theory promotes control mechanisms while stewardship theory promotes trust development. For example, some companies are concerned about the potential for managers to make philanthropic investment decisions based on personal preference or for personal gain such as political stature in the community rather than corporate gain. Eisenhardt (1989) examined that agency theory is important, yet controversial. Similarly, Bartkus, Morris, and Siefert (2002) used agency theory to illustrate the potential for influential stockholders to steer philanthropic investment decisions away from the strategic objectives of the corporation. Therefore, it is necessary for firms to institute policies and mechanisms that prohibit individual managers to stray from corporate objectives and, in the process, alleviate the potential for "chairman's spouse syndrome". The consequence of agency costs include all the costs referring to: contracting costs, transaction costs, costs due to moral hazard and informational costs. Williamson (1994) develops Coase's theory starting from the main reasons for transaction costs, uncertainty, limited rationality and information asymmetry. Transactions are different one from another by the specificity of assets, behavioral uncertainty and frequency. It is asserted that, corporations utilize their advantages over households in covering transaction costs of philanthropy and increase their profitability. For instance, transaction costs for private giving through microcredit, to take just one example, is probably about the same as for official development assistance. The general design principle is simple: strength of a company's reputation will lower transaction costs by some percentage, the actual amount of which would depend on the industry, the nature of the transaction, and the specific characteristics of the stakeholder. Godfrey and Hill (1995) brought a fresh perspective on the agency cost and said that agency theory assumes that the unobservable utility functions of principal and agents diverge, theorizes that this divergence give rise to inefficiencies which impact upon agency cost of another unobservable and proposes that the adoption of appropriate governance structures for policing the relationship between principals and agents can economize on agency cost.

Williamson (1994) voiced a clear objection to the emphasis on strategy in the broader management literature. His conclusion was simple and direct: “Economizing is more fundamental than strategizing or, put differently economy is the best strategy. That is the central and unchanging message of the transaction cost economics perspective. In summary, there are different cost implications associated with adopting strategic philanthropy as management tool but the ultimate goal should be with minimizing the transaction and the agency cost as outlined by Williamson.

III. METHODS OF STUDY

The study adopted two methods of data collection procedure. First , a qualitative data analysis based on the responses from responsible personnel who have various perspectives on the effect of strategic philanthropy during the recession is undertaken . Questionnaires were sent out to selected individuals working in corporations and whose focus were managing their organizations strategic philanthropic programs. Questionnaires were tailored towards investigative questions which move from specific to general that provide sufficient detail and coverage of the research and to gather the needed answers as per the gap in the literature review. Secondary, ten giants corporations were randomly selected from the existing secondary data to provide analysis of their financial performance during the years under review.

III.1 Sampling and Research Instrumentation

To accomplish the tasks associated with data collection, primary data collection method was used to gather the data. Primary data was collected in an effort to measure the influences of strategic philanthropy as management tool during recession as outlined in the literature review section.

With regards to the qualitative analysis, questionnaires are the main measurement procedure to gather the needed answers. The initial forty (40) targeted participants in senior level positions within their organizations were required to provide their candid opinion to the measurement questions in the questionnaire and expressed their professional opinion on their firm’s strategic philanthropic action during the recession period.

III.2 Validity and Reliability

The validity of a measurement instrument is the extent to which the instrument measures what it is supposed to measure. Reliability is the consistency with which a measuring instrument yields a certain result when the entity being measured hasn’t changed, Leedy & Omrod,(2005). To ensure high validity and reliability, the research adapted both the primary method through a carefully designed questionnaire and secondary data which is illustrated in Figure in Table I.

IV. RESULTS AND DISCUSSION

The first part of the study involves development of questionnaire and the use of online resources to create questionnaire through google docs and sent to forty senior respondents. Respondents were asked to submit their responses to the questionnaire. Responses automatically filled in the spreadsheet and these were classified in google docs .Though thirty responded from the executives of the selected firms, questionnaire were actually sent to forty respondents indicating a response rate of 75%.The questionnaire were structured to meet the hypotheses .

Q1. How long has your firm become familiar and use strategic philanthropy to achieve its business goals?

Q2. Do you agree with your firm’s organization of strategic philanthropy over the last four years?

Q3. Does strategic philanthropy impact firm’s performance in profitability and managerial efficiency?

Q4. Do you agree that strategic philanthropy yields additional cost?

Q5. Do you agree that the impacts of strategic philanthropy on additional cost creates an increasing trend?.

Q6. What is your professional opinion on why recent recession affected the way corporation use strategic philanthropy?

Q7. What is your professional opinion on why adopting strategic philanthropy in the recent recession period yielded additional cost.

Questions 1 and 2 were demographic questions to determine the years of experience of the executives in relation to their familiarization and organization of strategic philanthropy with their respective firms.

Questions 3 and 4 asked respondents on the research question, impacts of strategic philanthropy as a managerial strategy.

Question 5 asks about the trend in the associated cost to adapting the strategic philanthropy in the respondents' opinion.

Question 6 and 7 seek the professional opinion of respondents on main research question on why corporation did not adapt the strategy in the recession and the cost implication.

IV.1 Answers from the respondents revealed the following results

Twenty seven (90%) out of thirty respondents had become familiar with the strategy for over 5 years and they were satisfied with their firms management of strategic philanthropy. Two of the respondents (6.7%) said they have become familiar for 3-5 years who were also very much satisfied with their firm's strategic philanthropy .Only one respondent (3.3%) who was not satisfied with the firm's organization had become familiar with the strategy for an average of 2-3years .Their responses are depicted in a pie chart below:

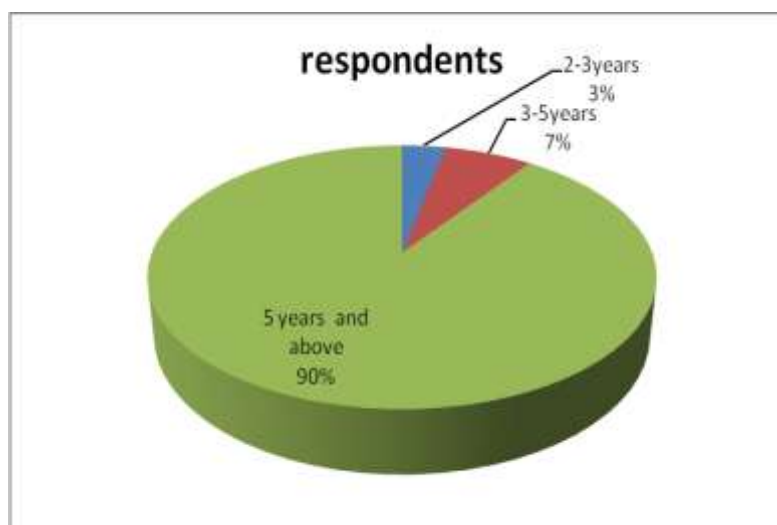


Figure 1

Twenty nine of the respondents (96.7%) interviewed believe that strategic philanthropy has positive impact on the firms performance whiles only one respondent(3.3%) believes it has no impact on company's performance at all .None of the respondent believes it has negative impact on the corporate performance and profitability. Based on

the responses from the twenty nine respondents, it can be said that there is enough evidence to accept the hypothesis that the adaptation of strategic philanthropy increases managerial efficiency and profitability. These responses on the impact of the strategy are depicted in the bar diagram below:

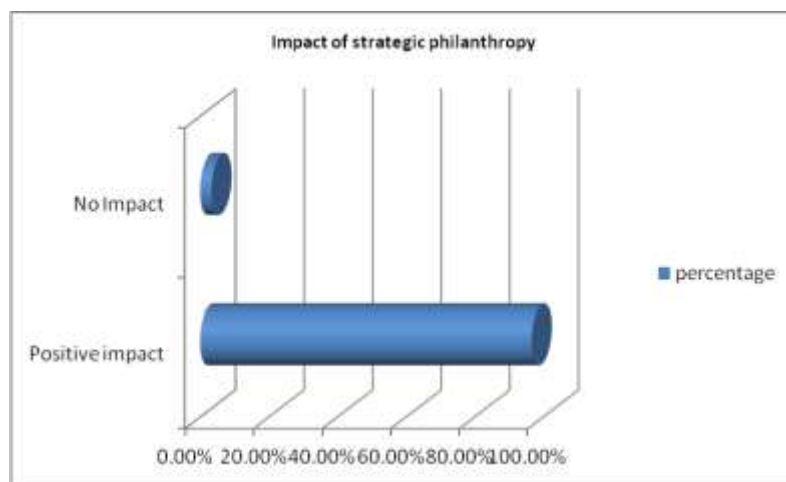


Figure 2

On the effect of cost of adopting the strategic philanthropy, twenty one (70%) respondents answered in affirmative that adopting the strategic philanthropy yields additional positive cost. Five respondents (16.7%) also answered that adopting the strategy yields additional negative cost impacts. Only four respondents (13.3%) answered it did not yield any cost. Their responses are depicted in the chart below:



Figure 3

The main reasons given for why companies did not use strategic philanthropy in the recession period is that economic downturn saps financial resources of the firm. As such in an effort to prioritize allocation of scarce financial resources, less funds goes into strategic philanthropy. The second reason is that recession affected budget constraints so funds allocated to strategic activities becomes limited during the recession.

The third reason on the cost associated with strategic philanthropy was attributed to time and effort. Management time and effort, infomercials to disseminate information and the direct monetary cost of giving to a particular course of the firm believes will improve the welfare of the society. It also requires a lot of organizational effort. Others responded that though there is cost associated but eventually this creates goodwill and reputational capital for firms, customer loyalty, and attraction of highly qualified and ethical employees who value strategic philanthropy. These benefits will be reflected in the firm's stock price in the long run.

In order to validate the responses of these thirty senior management an additional replacement sample of ten giant companies who participated in some form of strategic philanthropy and whose consolidated net incomes can be obtained from the existing secondary data were extracted and analyzed through inferences. These companies also serve as the replacement for the ten senior level managers who failed to provide their responses to the questionnaire that were sent to them. Table I below shows the details of the ten companies selected with their respective net incomes for the four years under study from 2008 -2011.

Table I : Analysis of net income of ten giant companies who participated in strategic philanthropy to validate the unresponse group of senior managers.

Net income in millions of Dollars between 2008-2011 of ten selected giants companies										
S/N	Company Details	Net income 2008	Net income 2009		Net income 2010		Net income 2011		Average increa income over period from the	
Comp. 1.	Ebay Inc.	1,779,474 100 %	2389,097 34.2 6 %	↑	1,800,961 1.21 %	↓	3,229,387 81.48 %	↑	29.24 %	↑
Comp.2	SANDISK CORPOR	94,417 100%	415,310 339.87%	↑	1,300,142 1277.02	↓	986,990 945.35	↑	665.56	↑
Comp. 3.	TOTAL SYSTEM SE	251,676 100%	219,176 12.91%	↓	205,621 18.30%	↓	222,662 11.53%	↓	35.69%	↓
Comp.4	XILINX INC	369,315 100%	361,719 2.06%	↓	357,484 3.20%	↓	641,875 73.80%	↑	44.77%	↑
Comp.5	TEXAS INSTRUME	1,920 100%	1,470 23.44%	↓	3,228 68.13%	↑	2,236 16.46%	↑	36.01%	↑

Comp.6	SRA International,	73,264 100%	58,000 20.83%	↓	18415 74.87%	↓	65,740 10.27	↓	35.32%	↓
Comp.7	NATIONAL SEMICORP	332.3 100%	298.8 10.08%	↓	209.2 37.05%	↓	73.3 77.94%	↓	41.69 %	↓
Comp8	ANALOG DEVICES	786,284 100%	247,772 68.49%	↓	712,084 9.44%	↓	867,394 10.32%	↑	29.42	↓
Comp.9	BMC SOFTWARE INC	313.6 100%	238 24.11%	↓	406.1 29.5%	↓	456.2 45.47	↑	16.95	↓
Comp.10	Amdocs Ltd.	378906 100%	326,176 13.92	↓	343,906 9.24%	↓	346,665 8.51%	↓	10.56%	↓

From the Table I, it is observed that the ten giant companies randomly selected on the Security and Exchange commission database either saw gradual positive increase or positive reduction in their net income over the four years. The upward direction of communication arrow shows that the company made a positive and upward increase of its net income using the first year as the base year for the computation of the percentage change. On the other hand, a downwards movement of communication arrow indicates a positive but reduced trend of the company's net profit over the base year. In the economic crisis, Managers and investors prefer to pose lower positive margin than making losses in any financial year. The overall average of the percentage increase of the Companies net income for the three years from base year under study have also been depicted. Overall, five of the selected companies saw positive increase of net margin while other five experience positive margin on downward trend. This also portrays effective managerial efficiency since most of the companies posted losses in the crisis period. Companies who were able to sail through the storms exhibited a great deal of efficiency in operation and managerial leadership. One area investors used to assess managerial efficiency is profitability, thus, when a company poses positive increase in their profitability, invariably the managerial efficiency can be portrayed to be higher than a counterpart that poses losses. Since all these companies that participated in some form of the strategic philanthropy saw a positive increase or decrease in the average net income in absolute terms at the end of the four year period, there is enough evidence to confirm and accept the hypothesis that "the adaptation of strategic philanthropy increases managerial efficiency and profitability".

Limitations: It must be said that the results of this qualitative study only expresses the view of thirty (30) top-level respondents by questionnaire and performance of ten giants corporations and can only be generalized for specified information technology industry within which they operate.

V. CONCLUSION AND RECOMMENDATIONS

It's is apparent from qualitative studies that many corporations have heard about the new wave of strategic philanthropy but few have known how to do it well. This has been proved empirically and with the available literature. However the data collection methods have confirmed that firms have the reason to switch and adapt the

use of the new wave but have to make drastic decisions before making any useful financial commitment. Among the key questions a company needs to address are include: What is the company willing to do to make cash contributions, in-kind contributions, provide opportunities for employees to volunteer, Is this short term or long term commitment by the company? What is the purpose of a philanthropic program? To offset negative publicity or to build a larger customer base or to create a more empowered and invested workforce or to get good publicity aligned with a new product offering?

Knowing why they are considering this program is important to know how it's constructed to achieve corporate goals. What kind of financial commitment is the company willing to make to support its charitable activities? Increasingly philanthropy is seen as an important way of building bridges for companies with the communities they serve (demographic and geographic) and to create an environment that will attract smarter, more committed employees who want to be part of a company that does good not just does well. It is highly recommended that future researchers in the same area take larger sample size within a specified industry for fair representativeness. Future researchers should also focus more on how to use the strategy to build bridges among the companies within which these firms operate so that the corporate social responsibility of the companies can be felt by all the different types of the institutions within the society.

The justification for further study can be drawn again from the brilliant research idea from Williamson (1994) who voiced a clear objection to the emphasis on strategy in the broader management literature. His conclusion was simple and direct: "Economizing is more fundamental than strategizing or, put differently economy is the best strategy. Future researcher much re-echo this message in the hears of corporations that in times of crisis, economizing is unchanging message while adopting the policy of strategic philanthropy.

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