



Creating a shared value of governance theories of strategic philanthropy -Agency, Transactional and Institutional approach

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Abstract

The purpose of this research is to measure the correlation by the use of qualitative measurement in relation to the three governance theories of Transaction cost by Andreasen (1999), Agency theory by Ullmann (1985) and Institutional theory by Dominic (2010). Primarily, the study tried to measure the refined and ranked opinions of key contributors to strategic philanthropy. The Delphi process was used to collect quality opinion from experts who represent their respective panels but having ultimate responsibility of implementing the strategic philanthropy as new wave of management strategy for their corporations in the social media. The ranked Contributions of the experts are embodied in the findings. The consensus findings from these experts revealed that strategic philanthropy have negative but positive correlation on the three governance concepts of Agency, Transaction and institutional theories. Based on the research findings, managerial implications and directions for future research are discussed.

Key Words: Delphi process or Expert Opinion, Qualitative research, Transaction,, Agency, Institutional.

1.0 INTRODUCTION

1.1 *Research Backgrounds*

The subject of strategic philanthropy therefore become very paramount especially in the post recession era where corporations were constantly reporting losses in the financial statements and many engaged in massive laid off and eventually closed down their different offices. Though the intention of this research is to lay the broad foundation for the problem that leads to the study or place this study in the context of the scholarly literature while reaching out to specific audience (Creswell, 1994).The actual importance of this little research of the corporate philanthropic, however is to examine the state of importance especially in the period of recession and aftermath of recession from experts opinion which is not common with other types of research.

1.2 *Statement of the problem*

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 from the experts point of view. This research project in the nutshell examines the state of philanthropic behavior as prevailing in the US industry in the post recession period between 2008-2011 specific to the information technology industry using adapted Delphi method .

1.3 *Purpose of the study*

The purpose of this study examines the critical changes of strategic philanthropy in the selected 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.

1.4 Research Hypothesis

The null and alternative hypothesis of this study are simply stated and represented as H₀, H₁ and H₂:
H₀: Adaptation of Strategic philanthropy has no correlation between Strategic Philanthropy measurement on Agency, transaction or institutional cost during the recession.
H₁: Adaptation of Strategic philanthropy has positive correlation between Strategic Philanthropy measurement on Agency, transaction or institutional cost during the recession.
H₂: Adaptation of Strategic philanthropy has negative correlation between Strategic Philanthropy measurement on Agency, transaction or institutional cost during the recession.

1.5 Organization of the study and Research procedures

This study is organized into five chapters. The general background information of the study, the motivation and the research purposes of the study, the research question and the hypotheses, significant and the limitation of the study are included in chapter I. Chapter II provides review of relevant literatures that have bearing on the research topic. The review covers the three conventional governance principles of transaction economics, agency theory and institutional cost. Chapter III provides an explanation of the methodology and the data collection procedure utilized for this study. Chapter IV, outline the results of the data collection and analysis. Chapter V, the final chapter, presents a summary of all the findings, the discussions of these findings, the authors' objective conclusions and rational recommendations for future research purposes.

1.6 Significance of the study

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.

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.

1.7 Limitations and Delimitations

This study examines the relationship between strategic philanthropy and firm's performance in the recession period in the United States of America by qualitative measure.

2.0 LITERATURE REVIEW

2.1 Transactional cost, agency cost and institutional implication of strategic philanthropy:

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.

2.5 Direction and grounds for this research

Besides the statement by Griffen (2004) that empirically there's a significant gap in our knowledge concerning the effect of restructuring on corporate philanthropy because both phenomena tend to be examined separately in their respective academic discipline, Porter and Kramar (2002), also affirm that corporate philanthropy is in decline and pointed out clearly that most companies feel compelled to give to charity, few have figured out how to do it well. According to Lev, Petrovits and Radhakrishnan, (2010), there are several fundamental reasons for the tremendous growth of interest in the new wave of strategic philanthropy. In the first place, Well-designed contributions can increase the firm's name and brand recognition among customers in a similar manner to advertising. Their study shows that despite substantial growth over the past two decades, corporate philanthropy remains controversial. Some



critics argue that corporate contributions are drain on shareholder wealth and a distraction of managers' attention, while others claim that the business sector is not giving enough. Werbel and Wortman, Jr.(2000), found out that strategic changes in corporate philanthropy may be one tool used to modify the image of the corporation. Sandfort(2008) supported that in spite of numerous approaches; there remains much confusion in the field about how best to conceptualize and implement a more "strategic" approach to philanthropy. Many philanthropic practitioners look askance at the body of scholarly research about philanthropy; because many studies take a critical or historical approach focused on large institutions, there are few frameworks that help inform current practice. Lastly, Research by Boney (2010) pointed out that the last few years have been rough on U.S corporations and their charitable giving programs. Corporate giving has been in decline since 2005, according to Giving USA. Then came the onset of the recession in 2008, a year during which corporate profits shrank and stock prices plunged .All that bad news took a toll on corporate strategic philanthropy, which in 2008 fell .It is therefore imperative for more objective measure of research to assess the behavior of philanthropist action during the times of recession as a basis for more and factual prediction as there's still broad uncertainty regarding the future prospects of philanthropy action .It is on this hope and premises that this research work is embarked upon to closed the knowledge gap in the academic literature as mentioned by Griffen 2004 with new measurement metrics and broader measurement procedure.

3.0 RESEARCH METHODOLOGY

Expert or Delphi method of approach was used to analyze the hypotheses from three executives of the corporations that have been promoting the strategic philanthropy as a new wave of improving corporate performance in the news, and other social Medias. Delphi method is an expert way of collecting information in an iterative manner and it intended to add new grease and affinity to this research. Delphi method provided a unique and fresh perspective to this research and distinguished it from the previous researches that use only the qualitative data alone without further reach and inclusion of expert opinion.

3.1. Sampling

The key reason for being concerned with sampling is that of validity—the extent to which the interpretations of the results of the study follow from the study itself and the extent to which results may be generalized to other situations with other people (Shavelson, 1988). To accomplish the tasks associated with data collection, Delphi . Methods were used.

3.2 Research Instrumentation

The research approach of Delphi method was used to collect expert opinion from three top executives of the corporations that have been promoting the strategic philanthropy as a new wave of improving corporate performance in the news and other social Medias.

3.3 Validity

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 a Delphi model proposed by Schmidt ,Lyytinen and Cule(2001) which is illustrated in Figure in figure 1 and figure 2 below.

Figure 1: Preparing the Knowledge resource Nomination worksheets

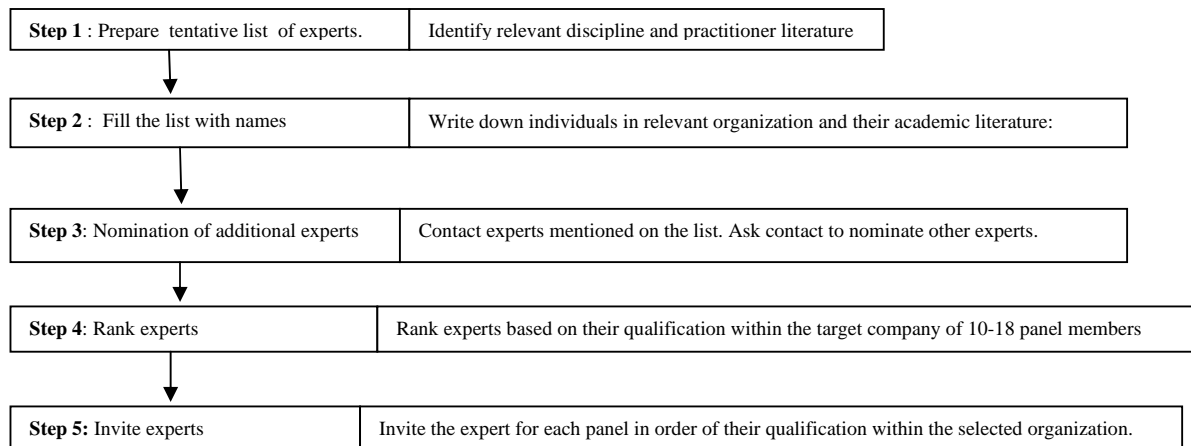
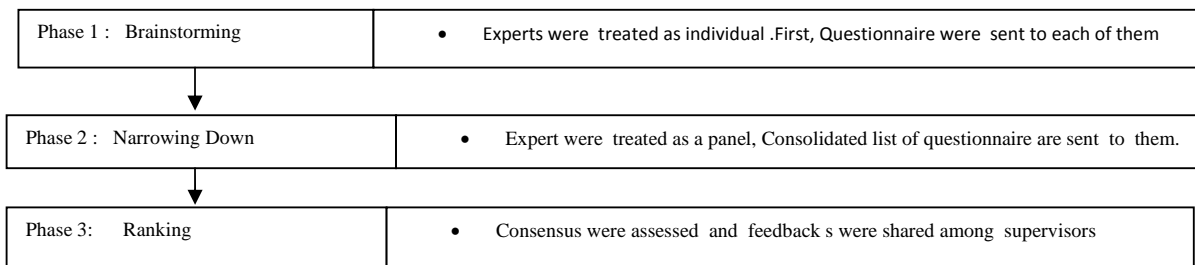


Figure 2 : Researchers’ Administrative process for Delphi process



4.0 RESULTS AND DISCUSSION

4.1 The results of Delphi method by experts’ opinion

For the purpose of administrative process,the Delphi strategy used for this research followed the method proposed by Schmidt ,Lyytinen and Cule(2001) which is illustrated in Figure in figure 1 and figure 2 above

The research part of data collection and analysis of the study involves brainstorming, narrowing down and ranking of consensus among the experts contacted. The consensus summarized the three key senior level executives having a sole responsibility of promoting strategic philanthropy as a new wave in social media in their organization which represent their respective groups of panel . The Delphi method is a structured communication technique which is systematic and interactive forecasting based on the panel of experts and it will help to affirm the findings through qualitative means. The three expert’s ranked provided their judgment and forecast. While not only affirming the hypothesis, Delphi method also helped shaped the conclusion part of this thesis. The first ranked data was collected from the Senior Vice President, Business Affairs for the strategic philanthropic organisation.The respond affirm hypothesis one(H1) and hypothesis two (H2): supporting that adaptation of Strategic philanthropy has both positive and negative correlation between Strategic Philanthropy measurement on Agency, transaction or institutional cost during the recession. The first ranked expert further elaborated that increasing of social media, a more transient workforce and younger works, a heightened selectivity and the expectations by consumers being more than just purveyors of products and services, offsetting negative publicity or to build larger customer base or create more empowered and invested workforce or to get a good publicity aligned with a new product offering are the main factors impacting the adoption of strategic philanthropy by



corporations.

On Affirming hypothesis two, the first ranked Delphi respondent affirmed that there is a financial commitment the company makes to support its charitable activities and these build bridges for the companies with the communities they serve to create environment that attract smarter and committed workforce.

The second ranked Delphi approach was made to the Reporting Author, Manager for standard and measurement for the committee encouraging corporate philanthropy. Her ranked contribution suggested and supported hypothesis two(H2) citing lower financial projects and general climate of economic uncertainty as the main cause of negative strategic philanthropy in 2011. This negative economic facts had ripple effect on decline market price or lower demand in their core market. Factors such as policy changes, reduction in product donations, improved inventory management which leads to lower surplus and therefore lower product contributions, and the availability of fewer high-valued products for donation. The second ranked Delphi expert further gave positive statement which supported Hypothesis one (H1) but state that the positive impact on strategic philanthropy of many companies that had a brighter financial look in the recession was caused by mergers which increased the overall profit hence positive increase in the strategic philanthropic activities. The third ranked Delphi data collection was made through online contact in an iterative manner to the internationally recognized expert in strategic philanthropy, she formed strategic philanthropy Ltd in 2000 .She is a prolific writer and speaker; she has authored pieces for the Journal of Practical Estate Planning, Alliance Magazine, STEP Journal (Society of Trust and Estate Practitioners), and the Environmental Grant makers Association Journal, among others. Her feedback detailed that strategic philanthropy has a positive impact on firm's performance and positive cost implication supporting hypothesis one(H1) stating that strategic philanthropy becomes most effective when thoughtfully undertaken. However, there is a cost associated with creating a meaningful corporate philanthropy program over and above any funds contributed. For a program to be effective it should align with the business and marketing strategies of a company so that it serves multiple purposes; enhances brand awareness and helps increase revenues which establishes the company as a good corporate citizen and member of its community and also improves employee relationships.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Answering the research question

Rimel(2001) mentioned that despite the growth in the number of foundations, their assets and their accomplishments, strategic philanthropy as a sector of American life remains mostly unknown. There are mixed opinion and empirical evidence regarding how the strategic philanthropy will impacts organizational performance. Wang,Choi and Li(2008) latter pointed out that there is an evidence that the return to strategic philanthropy as one compartmentalized measure of corporate social responsibility is approximately equal to the return to advertising. In a similar vein, Godfrey (2005) models corporate philanthropy as a type of insurance policy to protect firms against downside risk. On the contrary, Baruch lev,Christine Petrovits, and Suresh Radhakrishnan(2010) research indicated a decreasing marginal returns to strategic philanthropy. However this result of this study by Delphi measure shows an increasing trend toward the opinions which support strategic philanthropy.

5.2 Conclusion

The key findings of this study reveals that in the information technology industry, there is enough evidence from expert opinion that adaptation of strategic philanthropy positively and or negatively have correlation on measurement of agency, transactional and institutional cost.

Summary Table for Results of Hypothesis Testing



Hypothesis	Statistical Technique	Result
Ho : Strategic philanthropy has no correlation on agency, transactional or institutional cost.	Delphi process	rejected
H1 : Strategic philanthropy has positive correlation on agency, transactional or institutional cost	Delphi process	supported
H2 : Strategic philanthropy has negative correlation on agency, transactional or institutional cost.	Delphi process	supported

All the selected Delphi members were at the senior level of the corporate lather with rich profile and several years of promoting the subject matter on strategic philanthropy and their contribution emanated from the committee perspective on the board and panel on which they serve rather than individual perspective. While transaction cost measured the cost associated with the strategic philanthropy, agency cost measures the cost of hiring an agent to execute the transaction on company's behalf and the institutional cost measures the policies and the evaluation cost of the success of the strategy within certain time period.

5.3 Recommendation for further study

Further research in un-explored areas will be beneficial to literature. Studies on improvement on reporting metrics and tracking and focus on accountability and strategy, measurement and the creation of a new philanthropy strategy for the companies in the strategic focus areas are key areas that will be beneficial to literature and to prospective investors in the future. Secondly, future research should focus not only on firms that utilize the strategic philanthropy, but also on firms that have particularly not sterilize the new wave with dynamic leadership .This is because many firms in the US, Europe and Asia are now adopting a hybrid model of a strategic philanthropy, whose measurement from the global reporting perspective are not straight forward.

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