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the relationship between corporate philanthropy disclOSure and firm performance in the context of Jordan

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Abstract

Purpose – The main objective of this article to examine the relationship between corporate philanthropy disclosure and firm performance in the context of Jordan. *Research methodology* – The current article is a quantitative by nature. Data extracted from the annual report for the financial sector (Bank, diversified financial services, Insurance and Real estate) were listed in Amman Stock Exchange. The sample of the study were 113 companies for six years (2015 till 2020). *Findings* – Data analysis reveals there is an existing positive relationship between corporate philanthropy disclosure and firm performance. The results encourage the companies listed who didn't conduct the philanthropy activity to implement the philanthropy activity on their business. *Research limitations* – The article examine the relationship between corporate philanthropy disclosure and return on asset as the main indicator on the firm performance, this could lead the future study to conduct other indicators such as earning per share and return on equity. The current study examines the relationship between the variables in the context of Jordan, that lead the further studies to apply for other countries to generalize the results for other countries. *Practical implications* – The current article will encourage the stakeholders of the other sectors (Service and manufacturing sector) listed in Amman Stock Exchange to motivate the management focusing and applying more about corporate philanthropy disclosure. *Originality/Value* – Most of the previous studies was examine the relationship between corporate social responsibility and firm performance and excluded philanthropy activity as apart from social responsibility. This article focusing on the corporate philanthropy disclosure as a main element of corporate social responsibility.

Keywords: corporate philanthropy disclosure, firm performance, Amman stock exchange.

1. Introduction

Corporate philanthropy considered as the main feature of corporate social responsibility. Su and Sauerwald (2018) indicated corporate philanthropy disclosure might enhance firm value because it improves the relationships between firms and their stakeholders. Strategy scholars argue that corporate philanthropy disclosure helps firms to secure resources and support from stakeholders because it creates a favourable reputation in the eyes of stakeholders (Fombrun & Shanley, 1990). Firm reputation derived from corporate philanthropy disclosure may be an intangible strategic resource that increases firm value (Bergström & Diedrich, 2011; Fombrun, Gardberg, & Barnett, 2000; Godfrey, 2005; Lev, Petrovits, & Radhakrishnan, 2010; Surroca, Tribó, & Waddock, 2010). However, agency scholars argue that corporate philanthropy is primarily an agency cost because it wastes firm resources on social welfare that contributes little to firm value (Friedman, 1970; Jensen, 2002; Masulis & Reza, 2015). Eventually, according to Galaskiewicz (1997) indicates in view of agency theory view that the corporate philanthropy may be a response to social pressures to maintain managers' social status.

These contradictory views may be boiled down to whether managers utilize corporate philanthropy disclosure for the benefit of the firm or their self-interest (Cennamo, Berrone, & Gomez-Mejia, 2009; Godfrey, Merrill, & Hansen, 2009). In an effort to integrate these perspectives, corporate governance (CG) research may provide a new theoretical lens to examine whether corporate philanthropic investments improve firm value (Castañer & Kavadis, 2013; Hadani & Schuler, 2013; Masulis & Reza, 2015).

One recent insight in CG research is that CG mechanisms shape the value of strategic resources by lowering unnecessary agency costs (Brammer & Millington, 2005, 2008; Gillan, Hartzell, & Starks, 2011; Guo, Lach, & Mobbs, 2015; Sapra, Subramanian, & Subramanian, 2014).

Su and Sauerwald (2018) suggest that the link between corporate philanthropy and firm performance can be controversial. Meanwhile, there are different perspectives about the effect of corporate philanthropy disclosure on the firm performance. From the shareholders' perspective considered corporate philanthropy disclosure as just extra expenses and reduces profit. On the other hand, corporate philanthropy disclosure may enhance firm performance because it improves the relationship between company and stakeholders and can make strategically to raise a company's image and reputation. Jarwan et.,al (2022) indicates that the corporate philanthropy is an initial element of corporate social responsibility and through their analysis , the study found the corporate philanthropy disclosure has positively effect on the customer loyalty. This result encourages the management of the companies to do more philanthropy activity to attract more customers and increase their wealth. Thus, through the growing of the gain for the companies; corporate philanthropy disclosure could lead to attract more investment (internal and external) into the country.

The population in Jordan is more than 10.5 million in 2022. 3% of the population that are non-Muslim that is lead there are 97% of the population are Muslim. As a Muslim person, has to be involve with the charity activity as consider one of the five pillars of Islam (Zakat). Thus, the philanthropy activity in the Jordan people counting as a normal between the society. Based on previous discussion, the business organizations paid more attention on the philanthropy activity to keep up with the people activity.

Jordan has been affected from several issue such as: increasing of the refugees, increasing the unemployment ratio, decreasing of the foreign direct investment, and increasing the total dept/GDP to be 92% in the end of the 2021. During the suffering of the people in Jordan, the companies should take action and involve their activity with philanthropy activity to help needed suffering from previous reasons together with the Arab spring, Covid-19 disaster and the conflict between Russia and Ukraine.

Financial performance is one of the indicators used to measure the success of companies and the extent of their financial level. Financial performance is used by investors as a benchmark for performing the due diligence process and assessing the investment situation; It is also used as a tool by government monitors to assess compliance with regulatory measures and to monitor public safety. The current article will consider the return on asset the primary indicator that indicate the firm performance.

To achieve the article purpose, the following question set to determine the relationship between the independent and dependent variables.

Is there any relationship between corporate philanthropy disclosure and return on asset among companies in Jordan?

The following article objective is design:

To examine the relationship between corporate philanthropy disclosure and return on asset on the context of Jordan.

2. Literature Review

2.1 Corporate philanthropy

philanthropy definitions have been developed through the decades, the nature of philanthropy continuous to be understandable as the action of donating money or any other resources, such as time, in-kind, to help individuals, corporations and states (Eikenberry, 2006). Philanthropy gives or donates the use of resources or capital by business-minded persons or companies on their projects for the main reason to gain results (Breeze, 2010). On the other hand, Salamon (1999) argues the meaning of philanthropy as the private giving of intangible (time, service and many more), and tangible (money, goods and many more) for the multiple objectives. Finally, Smith (1976) indicates that to reach for social development not from the governments, but by the personal philanthropists.

According to McKinsey Quarterly global survey (2008), corporate philanthropy development is divided into three periods; firstly, in the 1950s, when corporate philanthropy was not mandatory. The second period was between 1954 and1980 when corporate philanthropy was mandated as corporate involvement, and the last period, from 1980 to present, corporate philanthropy is considered as variable to attract investment by corporations.

In a different way, corporate philanthropy is seen as establishing a win-win situation as both businesses and beneficiaries profit from it (Collins, 1994). Through supporting those in need, businesses have a great reputation that helps in earning confidence in the society. In several cases, there is evidence which companies can enhance efficiency by engaging in socially responsible practices (Su & Sauerwald, 2018; Wang & Qian, 2011).

Bolling and Smith (2019) assert that the term of corporate philanthropy can define is from a corporate perspective or even from an individual perspective (Bolling & Smith, 2019). Corporate philanthropy generally takes on three different types: corporate giving, corporate volunteering, and corporate foundations (Gautier & Pache, 2015). In addition, corporate philanthropy indicates to the donations of money or other resources such as the contribution of supplies by corporations for social purposes. By donating a scholarship, sponsorship, supporting health, culture, initiative, assistance when natural disasters, help poor people, help the corporations to sustainability, corporations are giving for non-profit organizations huge resources (money or others) to building a better society, whilst corporate philanthropy considers as the main relationship between business and community (Raja Ahmad, 2010).

2.2 History and Development of Corporate Philanthropy

(Castle, 2004) suggests the term of philanthropy maybe discover in the previous study of Mesopotamians, ancient Egypt, Romans, and others. Christianity and other religions have motivated anyone does philanthropy. In a different way, (Frumkin, 2008) discuss the beginning of philanthropy appear like a unique feature not only in America but in different societies. Besides, (Frumkin, 2008) suggests philanthropy was in a Greeks culture then moved through time to present.

Religion actually performed the leading part in the establishment and the formation of philanthropic people in the late 16th century. John Winthrop, in 1630, released a sermon called “A Model of Christian Charity” that described a divine and Godly society, flooding with philanthropy works (Friedman & McGarvie, 2003). From the point of Bremer (2005), the dialogue in Winthrop’s evangelical opinion, the Puritans will not only support, help and love each other, but will do so for the right reasons to encourage just community demand. But it was the publication of the 1889 essay “Wealth” by Carnegie (1889) started American philanthropy, as we understand it at present. Carnegie (1889) asserts his unorthodox point of understanding of affluent Americans; philanthropy was not a gift option, however, an essential and considered as the most important for ethical duty (Raymond & Martin, 2007). He asked for effective groups to manage their overflow money to support their populations. Philanthropy was the only proper and right practise of excess money, Carnegie urge and the rich man who died without donations would die in sham. The foundation of Andrew Carnegie is amongst the prominent philanthropic organizations of the world; setting a standard for current philanthropy in particular.

The main perspective of the modern philanthropy holds on its broader types or levels: philanthropy is internationally applied, as the main managers they apply corporate philanthropy want to focus on the measurement and know what it is the effect for their business. In addition, they focus on the results from benefactors (Byrne, 2002).

The new model encourages corporations to take a leading role in addressing social issues through the financing of long-term initiatives, such as school reform, disaster management, AIDS awareness, thus poverty reduction (Hogarth, Hutchinson, & Scaife, 2018). In the process, governments should be making strategic pacts with the previous and current corporations as essential allies in movements for social development while achieving their commerce objectives. Besides, to donate money or donate by giving scholarship and other causes, most corporations have taken it upon themselves to defend the course of poor people and businesses alike (Moran, Branigan, Jung, Phillips, & Harrow, 2016).

Although the latest philanthropists and also some academics have ascribed the significant difference between both the new philanthropy and other classical philanthropy approaches or structures to terms “strategic”, “venture”, “result-oriented”, “measurable investments”, some studies have required to moderate the being of a modern method of philanthropy.

2.3 Type of Corporate Philanthropy Disclosure

Based on the previous studies, Hashim et al., 2016 has been develop an element (indicators) to test the corporate philanthropy disclosure. The current article will focus into 26 elements of the corporate philanthropy disclosure.

Each company has chosen their own choice to determine which of the elements is suitable for the society who been with. Some of the companies focus on the cash contribution and grant, at the same time some of them has choose scholarship or sponsorship.

There is different level of corporate philanthropy disclosure. Raja Ahmad, Tower, & Van der Zahn (2009) and Brammer and Millington (2003) describe there is three-level of corporate philanthropy disclosure include low, average and high level to disclose that the corporations disclose. A low level indicates little information, while the high level means extensive information. The low level suggests qualitative information, while the average level indicates quantitative information. Eventually, the high level indicates both qualitative and quantitative information.

The current study will use the average weighted method to measure the corporate philanthropy disclosure. Whereas the current study divides the disclosure of corporate philanthropy for four as: 0 - there is no disclosure, 1- have a qualitative disclosure as a low level of corporate philanthropy disclosure, 2 - have a quantitative disclosure as average level of corporate philanthropy disclosure and 3 - have a qualitative and quantitative disclosure as a high level of corporate philanthropy disclosure.

2.4 Firm Performance

Nowadays, companies are looking for all the changes surrounding them with a view to maintaining their increasing performance while develop and enhance their performance. The winning card can be held by those who attempt to create and innovate to obtain and maintain performance. Hence, to understand and monitor firm performance in the competitive changing environment is very important. Thus, assessing the performance of companies has always been of attention of the management and researchers. Moreover, Taouab & Issor (2019) indicate that the measuring of firm performance in the environment of economic considers an important field for academic scholars and managers. Thus, researchers have extended their efforts when determining the measurement of firm performance.

On the other way, firm performance is a very important topic. Several factors that influence firm performance have been studied. There is a key performance measure to measure firm performance, financial and non-financial measures. Financial measures as return on equity (ROE), Tobin's Q ratio, earning per share (EPS), return on sale (ROS) and return on asset (ROA). In addition, the non-financial measures that affect the company's reputation and image such as their corporate social responsibility efforts such as corporate philanthropy. Although the corporate social responsibility efforts effect negatively on the firm performance in the short term, they have positively affected the companies firm performance in the long term (Ahamed, Almsafir, & Al-Smadi, 2014; Brammer & Millington, 2008; Eisenbeiss, Knippenberg, & Fahrbach, 2015; Nielsen & Nielsen, 2013; Richard, 2000). This explains the importance of article to clarify the relationship between corporate philanthropy disclosure and return on asset.

Wisuttorn (2015) defines return on asset is an essential measurement of the gain to measure the capacity and efficiency of corporations. (Saeidi et al., 2015) suggest that return on asset considers the best instrument to measure firm performance. In addition, (Yoon & Chung, 2018) indicate that the return on asset represents a corporation's financial efficiency of using its assets during a financial year, showing short-term profitability.

Return on asset is calculated as net income divided total assets.

3. Methodology

Based on the previous discussion, the current paper hypophyses as follow:
There is positive relationship between corporate philanthropy disclosure and return on asset.

3.1 Sample

The current paper was conducted on 113 companies listed on the Amman stock exchange. The companies represent the financial rector which contain:

1. Bank
2. Diversified financial services
3. Insurance
4. Real estate

3.2 Data Collection

This is a quantitative study. The study will use annual reports data as a primary data source to collect data for two reasons: firstly, the companies are using their annual reports to disclose philanthropy activities, thus the researcher can extract data from the annual report. Secondly, the data has been audited, so it is reliable and comparable.

3.3 Measurement of the Variables

3.3.1 Corporate philanthropy disclosure

The paper gathered 26 elements of corporate philanthropy disclosure from the company's annual reports. Four different scores will be assigned to each corporate philanthropy disclosure item depending on the extend of disclosure; score of 0 indicates there is no disclosure of corporate philanthropy. Score of 1 signal for qualitative disclosure of corporate philanthropy. Score of 2 indicates it is quantitative disclosure of corporate philanthropy, and Score of 3 mention the qualitative and quantitative disclosure of corporate philanthropy. The score of 3 indicates the highest level of disclosure of corporate philanthropy.

3.3.2 Return on asset

Return on asset is calculated as net income divided total assets.

3.3.3 Control variable

The control variable on the current article are:

1. Firm size = Total asset
2. Leverage level = Total Debt / Total Assets
3. Board size = number of the board member

3.3.4 Research Model

According to the following equations, the research model for this study is as follows:

ROAit = CPDit + FSIZEit + LEVit + BSIZEit+ e……….
Where:
ROA - Return on asset
CPD - Corporate philanthropy disclosure
FSIZE - Firm size
LEV - Leverage of the firm

BSIZE - Board size
e - error terms

3.4 Result and discussion

This section presents the results for the relationship between corporate philanthropy disclosure and return on asset return on asset from 2015 to 2020. The sample of the study were 101 firms each year from 2015 to 2020 after excluded 12 firms. Multivariate analysis is employed to examine the relationship between corporate philanthropy disclosure and return on asset. This regression method compares cross-sectional data, panel data and instrumental variable (IV) estimation.

3.4.1 Testing for Multicollinearity

Model	Variable	VIF	1/VIF
ROA			
	TA	3.55	0.28
	CPDI	2.82	0.35
	LEV	2.37	0.42
	BS	2.34	0.43
	Mean VIF	**2.77**	

Note: Following Hair et al., (2010), VIF of less than 4 posit absence of multicollinearity.

- TA: Total asset, CPDI: Corporate philanthropy disclosure index, LEV: Leverage level, BS: Board size

The independent variables were not highly correlated with each other. Some of the variables are significantly correlated to other variables, but the coefficients are very low, indicating that multicollinearity does not exist.

3.4.2 Testing for Homoscedasticity

Homoscedasticity is a further regression assumption that needs to test. A homoscedasticity test must be performed based on the multivariate analysis assumptions. which is conducted with the assumption that the variance level of the residual regression in the dependent variable (Firm performance) has equally distributed for the independent variables (Corporate philanthropy disclosure), or the variance of the error term is constant. Heteroscedasticity is present when the residual variances differ for different values of the corporate philanthropy disclosure (Independent value). This guide inaccurate regression findings and may lead to unreliable outcomes. For detecting heteroscedasticity, this study made use of the Breusch-Pagan / Cook-Weisberg test.

ROA as Dependent Variable
Breusch-Pagan / Cook-Weisberg test for heteroscedasticity Ho: Constant variance
Variables: fitted values of ROA
chibar2(01) = 377.55
Prob > chibar2 = 0.0000

Based on the Breusch-Pagan / Cook-Weisberg test statistic results, this study shows there is heteroscedasticity was existed in panel data analysis, leading that heteroscedasticity was probably a problem. To remedy for this problem, the panel corrected standard error method of regression is employed. In addition, the relationship between the variables was significant that lead to reject the null hypothesis.

3.4.3 Hausman specification test

The Hausman specification test, which (Hausman, 1978) designed, can be used to assess whether the random effects model or the fixed effects model is better. Through the Hausman test reveal the variation among the random effects model or the fixed effects model.

Subsequently, the Hausman test is conducted in choosing the best model that suits the data. The results for the Hausman test (random effects and fixed effects), according to Table below, shows x2= for the hypothesis model return on asset, the p-value of X2= 0.000 for all the models. From the results, indicate the highly significant of the chi-square values, should be reject the null hypothesis, which indicates that there is a significant difference between the coefficients of the random effects and fixed effects models. Therefore, the random effects model's cannot be applied; and the fixed effects model is more appropriate than the random effects model.

Hausman Test

	ROA
chibar2(01)	74.07
Prob > chibar2	0

3.4.4 Fixed Effects Model

After estimate between random effect model and fixed effect model, the study will go with the fixed effect model because the significant relationship and the null hypothesis rejected. Examine the fixed effect model through two tests. Autocorrelation test and heteroscedasticity test to examine the fixed effect model as follow:

3.4.4.1 Autocorrelation Test

In the panel data, the Wooldridge test is used to confirm the existence of autocorrelation. Wooldridge test checks for the first-order autocorrelation with a null hypothesis indicating no first order autocorrelation.

The table below show Wooldridge test which. For return on asset the Wooldridge test of autocorrelation resulted in F = 0.736, and the return on asset insignificant at 0.000 (Prob for ROA = 0.3932) In the current study the probably more than zero that is lead to problem in the autocorrelation. Due to this problem, the panel corrected standard error is employed to take care of possible heteroscedasticity. Next section will do the heteroscedasticity test to verify the fixed effect model.

Wooldridge test for Autocorrelation

	ROA
F	0.736
Prob > F	0.3932

3.4.4.2 Heteroscedasticity Test

In a situation where the p-value is more than 0.05, then this study fails to reject the null hypothesis. The result of below table shows there is a significant result (Prob = 0.0000) that leads to the existence of Heteroscedasticity. Thus, sections 3.4.4.1 and 3.4.42 concluded that the basic fixed effect model is not appropriate for this study. To remedy the problems, the study applied the Fixed Effect Regression with Driscoll-Kraay standard errors.

3.4.5 The Direct Effects Between Corporate Philanthropy Disclosure and Firm Performance

Here is the examination of the relationship between corporate philanthropy disclosure and firm performance (Return on asset, earnings per share and return on equity) using Fixed Effect Regression with Driscoll-Kraay standard errors.

Table below shows the summary of the results of the relationship between corporate philanthropy disclosure and firm performance which specify the findings of Fixed Effect Regression with Driscoll-Kraay standard errors used for the hypothesis testing. The results are highly fit and significant at 1 per cent, implying that the model have been specify correctly. It is apparent from Table below that the model were statistically significant at 1% and 5% level.

The Relationship Between Corporate Philanthropy Disclosure and Firm Performance (ROA)

Variable effect	**Model 1 (ROA)**		
	Coef.	t-value	P-value
CPDI	0.126	18.09	0
TA	-0.148	-3.01	0.003
LL	-0.556	-2.31	0.023
BS	0.175	5.26	0
_cons	-3.179	-4.67	0
	R-square	0.299	
	Prob > F	0	
	No. of Obs.	567	

Note: figures in the bracket are t-statistics. ROA= Return on asset. CPDI= Corporate philanthropy disclosure index. TA= Total asset. LL= Leverage level. BS= Board size. Cons= Constant.
***, **, * Indicate statistically significant at the 1%, 5% and 10% respectively.

The empirical result from the direct effect model indicates that the corporate philanthropy index, total asset, leverage level and board size are the major determining factor of return on asset for the sample of the study (bank, diversified financial services, insurance, and real estate) during the period of the study.

Thus, based on the coefficient values shown in Table 4.16 above, the model 1-1 with a return on asset as dependent variable exhibits the following empirical results:

ROAit = 0.126 (CPDit) - 0.148 (FSIZEit) - 0.556 (LEVit) + 0.175 (BSIZEit) - 3.179

Vis-à-vis the fixed effect model, the current study found that the corporate philanthropy disclosure has a significant and positive relationship with return on asset at 1% level. This implies that with 1% improvement in corporate philanthropy disclosure of the study sample, the return on asset increases 12.6% ceteris paribus. On the contrary, total asset (firm size) has a significant and negative effect on return on asset. This implies that if the total asset decreases by 1% the return on asset will improve by 14.8% ceteris paribus. On the contrary, leverage level has significant and negative effect on return on asset. This implies that if the leverage level decreases by 1% the return on asset will improve by55.6%. Board size has a significant and positive relationship with return on asset at 1% level. This implies that with 1% improvement in board size of the study sample, the return on asset increases 17.5% ceteris paribus.

From the above table, the paper concludes there are a positive relationship between corporate philanthropy disclosure and firm performance at 1%. R-Squared is a statistical measure of fit that indicates how much variation of a dependent variable is explained by the independent variable(s) in a regression model which is almost 30% which is Sufficient ratio among the variables of the paper.

Conclusion

Based on the discussion above, the paper found the relationship between the corporate philanthropy disclosure and firm performance represented by return on asset was positively significant. the article recommended for future researcher to examine the relationship between corporate philanthropy disclosure and other financial indicators such as: earning per share and return on equity. In addition, the article recommends the future scholars to examine the board of director diversity (board gender, board independence, board age, board education and board nationality).

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