An Empirical Study on Impact of Economic, Legal and Ethical Aspects on Corporate Philanthropy

Dr. Nawal Abdalla Adam Agiaban¹, Dr. Kameswari Peddada²*

¹Associate Professor, Faculty of Business Administration, Princess Nourah Bint Abdulrahman University, Riyadh, Saudi Arabia
²Professor, Faculty of Business Administration, Princess Nourah Bint Abdulrahman University, Riyadh, Saudi Arabia

*Corresponding Author:
Dr. Kameswari Peddada
Email: thuppal2000@yahoo.com

Abstract: Corporate social responsibility remains a topic of interest to researchers and academicians. However, the correlation between its four basic dimensions needs to be supported by more empirical evidence. This paper provides an empirical investigation into the correlations between the corporate economic, legal and ethical responsibilities on the one hand and corporate philanthropy on the other. The size of a corporate in the research model is a moderating variable. A survey was conducted using the questionnaire method to collect data from the executives of 52 companies selected by convenience sampling around Riyadh City in Saudi Arabia. The results of a regression analysis of the data revealed a significant influence of economic, legal and ethical responsibilities on corporate philanthropy. These results have important implications for corporate executives and policy makers to realize the voluntary components of ethical and philanthropic responsibilities after complying with mandatory economic and legal requirements. The study also aims at unraveling the strength of association between the three different types of responsibilities with philanthropy.

Keywords: Corporate social responsibility, Economic responsibility, Ethical responsibility, Legal responsibility, Mandatory responsibilities, Philanthropic responsibility, Voluntary responsibilities

JEL CLASSIFICATION: D64.

INTRODUCTION

"Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstances of economic injustice which make philanthropy necessary."—Martin Luther King Jr.

The word philanthropy is of Greek derivation meaning love of human beings. Corporate philanthropy (CP), initially defined as allocation of some of the business resources for benevolent purposes, like reduction in prices of products sold to the public, was later broadened as an optional obligation of a business to willfully distribute its slack resources (like cash, time or merchandise) to benefit the community through social service activities or to meet community's needs, like education, health, community development, environment protection and charity [1].

Corporate Social Responsibility (CSR) was defined as a set of economic, legal, ethical and discretionary activities conducted by business organizations for the sake of fulfilling expectations and values of the society wherein they function [2-4]. It was an ongoing duty to reinforce a company's moral ideals, social inclusion in the community, support for benevolent projects, and enhancing quality of life of the workforce, adding simultaneously to their financial advancement [5]. It includes voluntary commitment by stakeholders to consider benefits to society in conducting their businesses [6, 7]. Companies are expected to achieve financial returns, while remaining law abiding, ethical and socially supportive [8]. Some emphasize the mandatory nature of the commitment [9]. CSR was used interchangeably with the concepts of citizenship duties, neighborhood obligations, corporate accountability, corporate governance, and business ethics [10] and also with CP [1, 11]. Utilization of corporate resources for CP purposes was considered legitimate since 1952.

The concept of CSR is universal, but differed in its form and spirit. It has dawned in the West in the early 20th century, but has preexisted in the East.

Dimensions of CSR are the economical, legal, ethical and philanthropic responsibilities. Economic responsibility indicates that companies are expected to produce goods and services needed by the society at a profit. Profitability is a perquisite [11, 12] for undertaking other responsibilities, but being exclusively profit-centric with disregard for other responsibilities shall not be acceptable to society. Companies also have a legal responsibility to conduct their activities within their country's legal framework. Ethical responsibility
represents the norms and practices that a society requires businesses to comply with, but cannot be enforced by law. Philanthropic responsibility is voluntary and discretionary, unlike the other three non-discretionary entities [13].

The purpose of the present study is not intended to create any breakthrough in the existing knowledge of CP, nor in response to any expressed concerns of academicians and practitioners of CSR. The attempt is to supplement the existing knowledge by providing a better understanding for policy makers of the nature and magnitude of relationships among the different dimensions of the CSR and to identify, how a corporate orientation to economic, legal and ethical responsibilities affects CP orientation, in the context of Saudi Arabian companies.

REVIEW OF LITERATURE

Man is a social animal. Individuals and institutions have a responsibility to the society, which provides them safety and security. The concepts of social service and social responsibility are age old. Though the concept of corporate social responsibility has developed in the western civilizations with the advent of industrialization, social security has been a practice in the east since ancient times.

Gentleness, self-sacrifice and generosity are the exclusive possession of no one race or religion. In India the advent of Buddhism has rekindled the spirit of social service, which was dormant in the earlier times. The test of a civilization is in the way that it cares for its helpless members.

In the Middle East the advent of Islam brought in 'Zakat', which is considered one of the first formal institutions of social security. Its full form, Zakat al-mal, stands for religious tax on wealth and is obligatory for all practicing Muslims, who have the financial means. It preserves social harmony between the wealthy and the poor and promotes a more equitable redistribution of wealth and fosters a sense of solidarity amongst members of the Islamic community. It puts more emphasis on the role of society in easing social ills than on the state, though the latter has the ultimate responsibility for the social security after failure of social mechanisms in achieving their objectives [14]. It differs from the socialist system of economics by a greater role for people than for governments, as supported by a theory of utility study [15]. It could complement the traditional fiscal policy tools of government and could be used as a tool of fiscal stabilization counter-cyclically through discretionary and nondiscretionary means [16]. But, despite the theoretical intent and use for centuries, it appears to have failed so far to relieve large scale absolute poverty among Muslims in most of the Muslim-majority countries [17]. But an Islamic state has the liberty to impose and increase taxes, if Zakat revenues are insufficient to cover its spending.

Companies produce goods and services needed by society and sell them at a profit. They are at liberty to make profits and discharge their economic responsibility, but should act within the framework of laws, norms and expectations of society and government. Such compliance, both mandatory and voluntary, is in their own enlightened self-interest.

The CSR pyramid [11] includes four basic responsibilities as dimensions (economic, legal, ethical and philanthropic) of every business undertaking (Fig.1).

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**Fig-1: The Pyramid of CSR**

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Economic responsibility is that every business is expected to maximize its earnings per share, be profitable, have competitive advantages, be efficient and able to maintain sustained profitability. Legal responsibility requires a business to comply with governmental laws and regulations, confirm with local regulations, be recognized as honest and law abiding, and offer legitimate goods and services. Ethical dimension suggests that companies should cater to social morals and norms, be aware of changes in
societal norms, not transgress societal morals and values in achieving their goals, and be recognized as ethically committed. Philanthropic responsibility includes grants to charities, support to social events, participation in benevolent activities, and contribution to efforts aiming at improving quality of life in the community. Society requires companies to be useful to citizens by adding to their resources and enhancing their quality of life. Though it is considered a paramount responsibility in CSR pyramid, its discretionary nature distinguishes it from other responsibilities. A company voluntarily assigns some resources to non-business related community service. The pyramid of CSR assumes an economic orientation as the basis for serving the community. Many researchers have supported the Carroll's CSR model and confirmed its benefits to business and society [18].

A model for CSR [19] exists with three levels of CSR functions, which include “social obligations”, "social responsibility" and “social responsiveness”. Social obligation is the economic and legal behaviour of a business in response to market forces or legal restrictions. Social responsibility is business behavior conforming to the norms, values and expectations of society. Social responsiveness is coping with the needs of society. Social obligation is proscriptive, social responsibility is perspctive, while social responsiveness is anticipatory and preventive. But the model offers no illustration of how CSR dimensions affect one another.

Motives and reasons of business organizations contributing to CSR are many. They may include ethical acceptance, legal necessity, market reputation and business image, besides hopes for better financial performance [20, 21]. A positive impact of CP on companies' financial performance has been confirmed by many researchers [22]. CP also has a positive correlation with business reputation, trust, adherence, better consumer relations & financial performance [23-31]. Often the gains may be long term [32], or social power [12]. Helping people doesn't have to be an unsound financial strategy.

There is a gap between the theory and practice of CP among companies. It was pointed out that CP is declining and became a marginal activity carried out by executives at their free time [24]. Many allocate a small budget for CP as a form of public relations, advertisement and promotion of company's image and most of such programs are scattered, lack focus, depend on executive’s beliefs and values, rather than being a well thought-out social objective in the business plan. Consumer-oriented firms tend to provide lower philanthropic contributions compared to industry-oriented firms. Such half-hearted measures benefit neither the company, nor the society.

The practice of CP is often driven by ideologies and cultural issues. Different cultures assign different weights to the responsibilities depicted in the Carroll’s pyramid [33-35]. Corporate charity contribution in the U. S. is much smaller than individual or non-religious contributions. However, a corporation's cash flows were found to have significant effect on monetary donations [1]. In Arab countries, like Saudi Arabia, religious charity (Zakat) is the main motive for contribution of corporations. In the Western countries CP is mandatory by legislation, rather than optional [36]. In the Arab countries [37], unlike in the West, CSR is at an early stage of development and lacks legislative framework to ensure allocation and disclosure by companies. There appears to be a need to bring in uniformity in tapping the potential of CSR for solving basic problems of society, such as poverty and unemployment.

There are various factors affecting a company's commitment to different corporate responsibilities. Scholars have investigated the factors affecting expenditures of firms on CP [1, 23], the strategies pursued for investing in CP [25, 38, 39] and the effect of CP investment on financial performance [22, 25, 40-43]. In terms of size, larger firms may have more funds to contribute [42], whereas medium and small ones on shoe-string budgets may find voluntary CP beyond their reach. As there are still certain gaps in research [39], and the present study attends to one of those.

RESEARCH METHODOLOGY

The present research tries to address the need to study the mutual influences among the four corporate responsibilities in the context of companies in and around Riyadh in Saudi Arabia. A study of the attitudes of executives towards different responsibilities of a company was undertaken to bring out the mutual influence of such attitudes. A questionnaire method of eliciting responses to specific questions was followed for obtaining primary data (Appendix-I in English). An Arabic version was also supplied to expedite communication and accuracy.

The objective of this study: It is to assess the relationship between the orientation of executives towards their company's economic, legal, and ethical responsibilities and their attitude towards CP and to find whether the commitment of a company's executives to economic and legal responsibilities has a bearing on their commitment to ethical and philanthropic responsibilities.

Sample

The research sample consisted of executives from 52 companies located in Riyadh City of Saudi Arabia and selected on convenience basis.
Measures

Carroll's 1979 CSR Construct has been used to examine the impact of the attitudes of executives of companies studied towards CP. This construct can be utilized for any country. It depicts different components of CSR in a simple & basic manner and was found suitable for the objectives of the study and within the constraints of the present study.

The questionnaire comprised 21 choice questions concerning 4 CSR dimensions. A five-point Likert scale was used to grade responses of the executives. By asking them whether they agree or disagree with various statements relating to the different dimensions of CSR, their attitudes and perceptions concerning those dimensions were measured. A part of the questionnaire also includes open questions concerning their personal profile and the size of their company as measured by the number of employees. Reliability, validity and consistency of the method and the questions were subjected to statistical analysis.

Research Model (Fig. 2.): This paper measures the influence of executive’s corporate economic, legal and ethical responsibilities on corporate philanthropy. The model presupposes that business size can be considered a moderating factor.

Research Hypothesis: formulated to achieve the objectives of the study:

- $H_0$: There is no correlation between the economic, legal, and ethical responsibilities and corporate philanthropy.
- $H_1$: There is correlation between the economic, legal, and ethical responsibilities and corporate philanthropy. This relationship is moderated by company’s size.

The study was limited to one set of hypotheses in view of limitation of the research objective, preliminary nature of the study, resource constraints and practical expertise in CSR field.

![Research Model](image)

The questionnaire sets were mailed to 100 companies belonging to different industries in the Riyadh City of Saudi Arabia. Out of 100, 52 questionnaires were answered and returned, and the response rate was 52%.

SPSS Version 20.0 was used to analyze the data collected. Regression analysis was applied to identify the correlations between the dependent variable (CP) and the independent variables (economic, legal, and ethical responsibilities). The size of a company, based on number of employees, was the moderating variable.

### FINDINGS

The median age of the executive participants (Table-1) was found to be 31 – 40 years (29%). The majorities were men (83%) and the majority had a bachelor’s level of education (66%).

<table>
<thead>
<tr>
<th>Age</th>
<th>Number</th>
<th>Level of Education</th>
<th>Number</th>
<th>Sex</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤30</td>
<td>8</td>
<td>&lt; secondary Sch.</td>
<td>4</td>
<td>Male</td>
<td>45</td>
</tr>
<tr>
<td>31-40</td>
<td>14</td>
<td>Secondary Sch.</td>
<td>8</td>
<td></td>
<td>Female</td>
</tr>
<tr>
<td>41-45</td>
<td>12</td>
<td>Bachelor</td>
<td>33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>46-50</td>
<td>11</td>
<td>postgraduate</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51-55</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>≥56</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table-1: Respondents' Profile

Available Online: [http://scholarsmepub.com/sjbms/](http://scholarsmepub.com/sjbms/)
Correlation and regression analyses were used to test the research hypotheses. Descriptive statistics and correlation matrices for the variables used in the study (Table 2) reveal that all the independent variables show a positive correlation with C.P., the dependent variable. However, the moderating variable (company's size) shows a negative correlation.

Regression analysis was used to find out the significance of the influences of independent variables and moderator variable on the dependent variable.

Regression analysis results (Table 3) showed a significant F-value <0.05 with a significant F-statistic (R-squared = .431), which indicated that the independent variables explain 43.1% of the variation in the dependent variable (CP), leaving the bulk of contribution to other factors. The results reveal a positive influence on CP of all the independent variables, with ethical responsibility having the higher influence (F-value <0.05, r = .362) than the economic responsibility with a lower & insignificant influence (r = .003).

**DISCUSSION**

This study is about the influence of the companies' economic, legal, and ethical responsibilities on corporate philanthropy. The influence of these factors is presumed to be moderated by the company's size. The analysis of results indicates that the attitudes of the executives towards philanthropy are partially affected by their orientation towards economic, legal, and ethical responsibilities. The results therefore confirm the alternative H1 hypothesis. These findings agree with the Carroll’s-1979 Model that economic, legal, and ethical responsibilities are predictors of corporate philanthropy. This study has a significant contribution to the literature on corporate social responsibility by providing a scientific basis for the nature and magnitude of relationships among the different corporate responsibilities. The results have shown a negative correlation between the corporate size and corporate philanthropy, attributable to the fact that the corporate size is relative to business investment, while philanthropy relates to the corporate economic performance.

**CONCLUSIONS**

The orientation of executives towards corporate economic, legal, and ethical responsibilities has a positive influence on the corporate philanthropy. The corporates contribute to philanthropy after fulfilling their economic, legal, and ethical responsibilities, because they need money to contribute to different philanthropic activities. A strong and significant influence of ethical responsibility over philanthropy implies that corporations caring for social norms and values are more likely to contribute to charities and involvement in social welfare activities. The ethical and philanthropic responsibilities, both being voluntary and not enforceable by law, may explain this strong and significant relationship. This study has both academic and practical implications. The policy makers may note the link between the corporate profits and philanthropy, and recognize the economic basis for this study of all corporate responsibilities. This study may add some substance to the literature on corporate social responsibility and the relationships among its different dimensions.

**Table-2: Descriptive Statistics and Correlation Matrix**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Corporate Philanthropy</td>
<td>4.067</td>
<td>.970</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Economic responsibility</td>
<td>3.673</td>
<td>.720</td>
<td>.362</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Legal responsibility</td>
<td>4.044</td>
<td>.646</td>
<td>.599</td>
<td>.548</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Ethical responsibility</td>
<td>3.788</td>
<td>.740</td>
<td>.583</td>
<td>.482</td>
<td>.684</td>
<td></td>
</tr>
<tr>
<td>5. Size</td>
<td>1.50</td>
<td>.505</td>
<td>-.190</td>
<td>-.054</td>
<td>-.200</td>
<td>.016</td>
</tr>
</tbody>
</table>

N = 52 Note: **Correlation is significant at the 0.01 level (2-tailed)**

**Table-3: Regression Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Statistical</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Responsibility</td>
<td>.003</td>
<td>.180</td>
<td>.022</td>
<td>.982</td>
</tr>
<tr>
<td>Legal Responsibility</td>
<td>.324</td>
<td>.251</td>
<td>1.938</td>
<td>.059</td>
</tr>
<tr>
<td>Ethical Responsibility</td>
<td>.362</td>
<td>.205</td>
<td>2.311</td>
<td>.025</td>
</tr>
<tr>
<td>Corporate Size</td>
<td>-.131</td>
<td>.221</td>
<td>-1.137</td>
<td>.261</td>
</tr>
<tr>
<td>R-squared</td>
<td>.431</td>
<td>F-statistic</td>
<td>8.891</td>
<td>.000</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>.382</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
REFERNECES

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APPENDIX- I

RESEARCH QUESTIONNAIRE (IN ENGLISH)

Dear Manager,

Thank you for participating in this study on “An Empirical Study on Impact of Economic, Legal And Ethical Aspects On Corporate Philanthropy” conducted by Dr. Nawal Abdalla Adam Agiaban & Dr. Kameswari Pedada from Princess Nourah University. We invite you to complete this questionnaire and all your responses will be completely confidential and the results will only be used for academic and professional publications and will be reported in aggregated form.

1. Size of the company
   ○ Less than 250
   ○ More than 250

2. Position in the company
   ○ CEO
   ○ Middle management
   ○ Lower management
   ○ Others

3. How long has it been since your company first started CSR activities?---------

4. What is your current designation in your company?---------------------------------------

5. Number of years you have been in this company --------------------------------------

6. Number of years of the this company (age of the company)----------------------------

7. What is your age in years?
   ○ Under 30 ○ Between 31 – 40 ○ Between 41 – 45 ○ Between 46 – 50
   ○ Between 51 – 55 ○ Over 56

Available Online: http://scholarsmepub.com/sjbms/
8. What is your gender?
○ Male ○ Female
9. What is your educational level?
○ Some high school ○ High school graduate ○ 2-year college ○ 4-year college ○ Post graduate
10. Do you have any comments that you would like to offer?

Kindly complete the response sheet attached and return.
Please circle a number to indicate how strongly you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have been successful in maximizing our profits</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We strive to lower our operating costs.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Top management establishes long-term strategies</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Managers comply with the law.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We seek to comply with all laws regulating hiring and employee benefits</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Managers support employees’ education</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We have flexible policies to enable employees to better coordinate their work and personal life.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We support individual training programmes for employees</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We provide instruction to employees about health and safety conditions</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Sales-persons and employees are required to provide full and accurate information to all customers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We control the quality of our own products</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We have suitable procedure to receive complaints from customers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We give adequate contributions to charities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>A programme is in place to reduce the amount of energy and materials wasted in our business</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We encourage partnership with local businesses &amp; schools.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We respect the intellectual property of competitors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We have socially responsible activities for a favorable public image</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We set complaints procedure for suppliers.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We control the quality of suppliers’ products.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>We control the labour standards of suppliers for compliance with legal requirements.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

End of Questionnaire.
THANKS!