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**A Stakeholder Analysis of Corporate Donations:
United Kingdom Evidence**

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ABSTRACT

Drawing a framework from stakeholder theory, this study uses 1994 data drawn from 100 United Kingdom listed companies to test empirically whether the level of discretionary donations made by companies to charitable, social and political causes is related to four company-specific factors, namely leverage, company size, profitability and ownership structure. Consistent with our hypotheses, the results indicate that the decision to contribute funds to charities and other bodies is positively related to company size and profitability and negatively related to leverage. However, the study provides no support for the view that there is a link between discretionary donations and a company's ownership structure.

A STAKEHOLDER ANALYSIS OF CORPORATE DONATIONS: UNITED KINGDOM EVIDENCE

INTRODUCTION

The organisation and management literatures (*e.g.* Anderson, 1986; Mescon and Tilson, 1987; Haley, 1991; Moore, 1995) have long recognised that social responsibility beyond the pursuit of profit and the maximisation of shareholders' interests is an important corporate duty.¹ Social responsibility frequently involves companies in using discretionary funds to benefit charitable causes, promote community projects and support political parties (Cowton, 1986, 1987; McGuire, Sundren and Schneeweis, 1988; Navarro, 1988; Haley, 1991; Hart, 1993). Hart (1993, p. 16) considers that philanthropic behaviour by companies is often controversial because "... it is not clear that [donations] ... are made with the consent of the firm's owners, or whether they are a form of self-aggrandizing or self-promoting behaviour by management ...". Navarro (1988, p. 66) expresses a similar view and contends that companies may give to charities and other groups such as political parties "... for reasons other than profit maximization, such as to satisfy the goals of shirking managers rather than those of shareholders ...". Cowton (1987, p. 553) adds that "... the growth of the debate on the social responsibilities of business and discussions of the appropriate size and role of government-funded welfare has heightened the significance of, and interest in, companies' support of charitable activity". Therefore, what motivates managers in companies to make discretionary donations is an empirical question of some importance. Drawing a framework from stakeholder theory, this study uses 1994 data drawn from 100 United Kingdom (UK) listed companies to test empirically whether the level of corporate donations is related to company-specific characteristics, namely leverage, firm size, profitability and ownership structure.

Four motives underpin this study. First, linkages between the level of donations and company-specific characteristics such as leverage and firm size, could help stakeholders like shareholders, creditors and customers, to make better informed business decisions. For example, companies which make substantial contributions to charities and other social causes are likely to promote a socially responsible public

image which could extend to other aspects of business practice, such as the maintenance of high standards of product quality and customer care. Second, the study could have important policy implications. For instance, a high level of corporate donations to social causes could signal to government bodies that managers are sincere in the dealings with their stakeholders, thus obviating the need for costly regulations (*e.g.* with regard to customer care) to be imposed. Third, our results could contribute insights into the strategic management function of companies. For example, the decision to contribute funds to charities and community projects could indicate that managers are seeking to improve customer and/or investor goodwill as part of a longer-term corporate strategy. The development of goodwill amongst various stakeholders could enable companies to broaden their strategic options in the future. Fourth, we believe that empirical evidence obtained in this study could provide a yardstick against which the results of future research into the motives for corporate donations in both the UK and elsewhere can be evaluated.

Our results indicate that the corporate decision to contribute discretionary funds to charities and other bodies is positively related to company size and profitability and negatively related to leverage. However, we find no support for the view that there is a link between discretionary donations and a company's ownership structure. Finally, we find no statistically significant industry effects, and we find no significant link between discretionary donations and the nationality of the companies in the sample.

The remainder of our paper is organised as follows. The next section provides background information on the nature and scale of corporate donations in the UK, while the third section introduces stakeholder theory and puts forward four hypotheses to facilitate empirical testing. The research design, including the sources of data, the statistical model and the variables used are then described. The fifth section discusses the empirical results and conclusions are made in the final part of the paper.

DISCRETIONARY DONATIONS BY THE UK CORPORATE SECTOR

Section 234 (3) and Schedule 7 (paragraphs. 3 and 4) of the UK's *Companies Act 1985* require companies to disclose contributions of over £200 to charities and political bodies in the directors' report which accompanies the published annual accounts. Under the 1985 Act, recipients of political donations must be disclosed and the sum stated, but no such disclosures are required with regard to charitable donations or contributions to other social causes. The *Finance Act 1986* liberalised the taxation rules concerning discretionary corporate donations allowing qualifying payments to be treated as an allowable charge on income for the purposes of tax relief (Cowton, 1987). Cowton (1989) further contends that the statutory obligation for UK-based companies to report discretionary donations developed out of a political concern that such disclosure was not only in the general public interest, but also information which shareholders and prospective investors would find useful in making economic judgements.

In the financial year 1992-1993, the value of charitable donations made by UK listed companies amounted to approximately £151 million, with declared community sponsorships amounting to an additional £248 million (Casson, 1993). In aggregate, this figure represents about £399 million or 0.74 per cent of annual pre-taxable profits of UK listed companies. As a proportion of annual pre-taxable profits, it would appear that the current rate of charitable and community contributions made by UK companies has grown steadily over the last twenty years or so (e.g. see Cowton 1987) and their relative contribution rate is approaching that of companies operating in other developed economies such as the United States (US) (Anderson, 1986)². Therefore, as Moore (1995, p. 171) observes, UK companies “ . . . are making an important contribution to the well-being of communities throughout the country . . . and that this is now a normal and expected part of business activity ”.

From a survey of 79 of the largest *Times 1000* UK companies carried out in 1985, Cowton (1986, 1987) noted that industrial and financial institutions were split evenly among the 10 biggest sponsors of charitable and community projects corporate donations, although overall industrial concerns contributed nearly 80 per cent of total donations (1985 = £119 million). The main reason for making charitable donations cited by 48 (61 per cent) of the executives surveyed was to promote a

more prominent socially responsible public image for the company. However, the survey results indicated that executives rarely monitored the use and effectiveness to which their contributions were put.

In contrast to charitable contributions, detailed information regarding donations made by UK companies to political parties are difficult to come by (Pinto-Duschinsky, 1985; Fisher, 1994). However, Fisher (1994) reports that for 1992-93, 242 of the top 4,000 UK companies (*i.e.* approximately 6 per cent of the total) gave £4.3 million to political parties, of which approximately 95 per cent went to the Conservative Party. Surprisingly, little research has documented or analysed the motives for political donations, though intuitively, several economic and socio-political explanations could help to explain such behaviour. For example, companies may make political donations as part of the commercial strategy of avoiding the increased regulatory costs of an interventionist party. Alternatively, companies may wish to promote a more 'socially acceptable' image by contributing to the costs of democracy. The degree to which stakeholder theory contributes insights into the motives for discretionary corporate donations is examined below.

HYPOTHESES DEVELOPMENT

Stakeholder theory postulates that various constituencies - including shareholders, creditors, managers, employees, customers, government and the general public - have legitimate claims on the modern corporation (Freeman, 1984). Legitimacy is established either through explicit contractual obligations (*e.g.* remuneration packages) or by unwritten implicit arrangements (*e.g.* a fiduciary duty to treat the work-force fairly). The major strategic objective of corporate management is thus to balance the conflicting claims (both explicit and implicit) of the various stakeholders (Roberts, 1992). In this regard, Hill and Jones (1992) consider stakeholder theory to be a generalised form of agency theory - a mode of analysis which has emerged as the dominant paradigm in the financial economics literature.

Proponents of stakeholder theory (*e.g.* Ullmann, 1985; Cornell and Shapiro, 1987; Hill and Jones, 1992; Roberts, 1992) contend that stakeholder theory provides a viable framework within which to examine management strategy, including the motives for socially responsible activities. For example, stakeholder theory explicitly

acknowledges that the government and general public contribute resources and facilities (e.g. government inducements, infrastructure, educated workforce and so on) so that companies can operate effectively and that in return external stakeholders, at least implicitly, expect some payback in the form of financial support for social causes. As a result, we consider that stakeholder theory has intuitive appeal in providing insights into why companies might make discretionary payments to support charitable and other social activities. In the remainder of this section we therefore put forward four testable hypotheses derived from stakeholder theory regarding the linkages between the level of donations and the characteristics of UK listed companies.

Leverage

In the agency theory literature, high corporate leverage is frequently associated with increased contracting costs. For example, debt contracts could impose liquidity tests, unscheduled audits, investment restrictions and sinking-fund requirements, in addition to establishing the pre-emptive claims of debtholders in the event of bankruptcy (Booth, 1992). As mentioned earlier, stakeholder theory holds that companies must not only satisfy the explicit contractual rights of parties such as debtholders to receive a satisfactory return on their capital, but also fulfill the implicit claims of other constituencies such as the government and local community to avoid financial risks (e.g. bankruptcy). For instance, Cornell and Shapiro (1987) argue that it is in the interest of implicit claimants to minimise the risk of corporate financial distress because they are likely to incur costs (e.g. with respect to job losses) in the event of bankruptcy. McGuire *et al.* (1988, p. 856) also contend that “. . . to the degree that a firm has high social responsibility . . . it may also have a low percentage of total debt to total assets . . .”. In other words, a low level of corporate leverage (hence low contracting costs) could ensure that owners and their managers continue to satisfy the implicit claims of external constituencies by means of charitable and other contributions. Barton, Hill and Sundaram (1989) also furnish empirical evidence from US companies to suggest that cross-sectional variations in corporate social responsibility can be explained by differences in capital structure. Therefore, our first hypothesis is:

Hypothesis 1: Ceteris paribus, lowly leveraged companies will make larger donations than highly leveraged companies.

Company Size

Ball and Foster (1982) maintain that company size is a comprehensive variable which can proxy for several corporate characteristics, including economies of scale in production and competitive advantage. Nonetheless, Roberts (1992) reports that company size is an important correlate of political exposure and as a result, it is likely to reflect the level of corporate social responsibility activity. He reasons that corporate size would be positively related to socially responsible activities because large companies are more likely than small companies to be subject to scrutiny from the general public and government bodies. Cowen, Ferreri and Parker (1987) share this view when they argue that compared with small companies, larger companies are likely to have more stakeholders interested in corporate social activities. Watts and Zimmerman (1978) and Belkaoui and Karpik (1988), among others, also argue that large companies are more likely than small companies to be politically visible. As a result, large companies could increase discretionary donations to charities, the local community and other bodies, in order to mitigate the risk that government agencies might impose additional costs (e.g., higher taxation and regulatory compliance costs) on them if they do not act in a socially responsible manner. Therefore, the second hypothesis is:

Hypothesis 2: Ceteris paribus, large companies will make larger donations than small companies.

Profitability

Ullmann (1985), McGuire *et al.* (1988), and Roberts (1992), among others, argue that financial performance could influence corporate social behaviour. For example, McGuire *et al.* (1988, p. 857) contend that contributions to charities and other causes “ . . . may be especially sensitive to the existence of slack resources . . . [and that] less profitable firms may be less willing to undertake socially responsible actions.” In a similar vein, Roberts (1992, p. 599) states that “ . . . economic performance directly affects the financial capability to institute social responsibility programs. Therefore, . . . the better the economic performance of a company, the greater its social responsibility activity . . .”. The positive linkage between profitability and corporate social responsibility has also been acknowledged by Alexander and Buchholz (1978, p. 479) when they state that “ . . . socially aware and concerned management will also possess the requisite skills to run a superior company in the traditional sense of

financial performance, thus making its firm an attractive investment . . .”. Therefore, it seems reasonable to conclude that profitable companies are likely to have the discretionary funds to commit to charitable and other programmes whereas companies with poor financial performance are likely to restrict managerial discretion over social responsibility expenditures. Indeed, Cochran and Wood (1984) provide empirical evidence from the US corporate sector supporting the notion of a direct relationship between the level of company donations and profitability. Consequently, our third hypothesis is:

Hypothesis 3: Ceteris paribus, profitable companies will make larger donations than less profitable companies.

Ownership Structure

In companies with widely dispersed shareholdings, managers are likely to have considerable discretion over operational decisions compared with their counterparts in entities with a more concentrated ownership structure (Grossman and Hart, 1980). Therefore, other things being equal, the less concentrated the ownership structure of companies the more discretion managers are likely to have to make donations. Haley (1991) suggests that greater discretion to make charitable and other donations could help managers to increase their own prestige in the local community and thereby enhance the value of their reputational capital in the internal and external labour markets. However, Navarro (1988) contends that socially responsible managerial behaviour could be made at the expense of maximising shareholders’ wealth. In contrast, managers in companies with concentrated ownership would be subject to close monitoring and control by shareholders and thus be less likely to make discretionary donations without their knowledge and consent. Hart (1993) also considers that in closely-held companies managers who do not act in accordance with shareholders’ interests with regard to the making of discretionary payments could also be subject to *ex-post* litigation.

Conversely, Ullmann (1985) argues that dispersed corporate ownership heightens the pressure for managers to engage in socially responsible activities such as making charitable donations for other reasons. For example, Ullmann(1985) suggests that the more diffuse the ownership structure of companies, the greater is the possibility that there will be shareholders (*e.g.* ethical investors, religious and civic pension funds) who could have an interest in promoting a socially responsible corporate

image. Hart (1993) also argues that as corporate donations to charities and other groups benefit all shareholders, it is likely to be more cost-effective to give to social projects as a company expense rather than rely on individual shareholders to contribute out of their dividends. This is because some shareholders may attempt to free-ride on the social contributions made by others. As a result, our fourth hypothesis is:

Hypothesis 4: Ceteris paribus, companies with widely-held shareholdings are likely to make larger donations than companies with a more closely-held ownership structure.

RESEARCH DESIGN

To test the four hypotheses, a discretionary donations equation was estimated using measures of leverage, company size, profitability and ownership structure as independent variables. Cross-sectional data were obtained from the published annual reports of a random sample of 100 UK listed companies for the year-ended 1994. This sample represented approximately 5 per cent of total companies quoted on the London Stock Exchange (LSE) at that time. The sample also represented the latest and most complete source of data available at the time the study was carried out in 1996.³

The dependent variable (***DON***), representing the level of corporate discretionary donations, is the aggregate of charitable, community and political contributions made by each company during the year (£m).

The independent variables are defined as follows:

Leverage Leverage is defined as the ratio of total long-term debt at book value plus prior charge capital (e.g. preference shares) over the total market value of assets reported at year-end.

Company Size Company size is measured as the total market value of assets held at year-end (£m).

Profitability Profitability (or financial performance) is measured as the ratio of net profit before interest and taxation to turnover at year-end.

Ownership Structure Ownership structure is measured as the proportion of the total number of shares issued held by the top three shareholders.⁴

The model to be estimated can be expressed as follows:

$$\ln DON = b_0 + b_1 \ln LEV + b_2 \ln SIZE + b_3 \ln PROF + b_4 \ln OWN + e$$

where *DON* is the level of discretionary donations, *LEV* is leverage, *SIZE* is company size, *PROF* is profitability, *OWN* is ownership structure and *e* is the disturbance term assumed to have a zero mean and constant variance. All the variables included in the function are expressed in natural logarithms (*ln*): this means that partial derivatives can be interpreted as elasticities and it may help to eliminate heteroscedsticity in the disturbances.

RESULTS

Descriptive Statistics and Correlation Coefficients

The means and standard deviations of the variables included in the study (*DON*, *LEV*, *SIZE*, *PROF* and *OWN*) are shown in Table 1 for the 100 firms in the sample, classified into four major industrial groups - construction, services/utilities, manufacturing/engineering and others. Table 1 also shows a Pearson correlation coefficient matrix for the natural logarithms of these variables (as included in the regression equation) and variance-inflation factors for the independent variables in the model to test for multicollinearity. Table 1 indicates that the average level of discretionary donations is about £950,000 for all the companies in the sample, but this average varies from £140,000 for companies in the construction industry to ten times that figure for companies in the services/utilities and 'other' industry groups. The manufacturing and

engineering companies in the sample contributed average discretionary donations of just over £0.5 million in 1994. The companies in the sample also differ significantly in size across industry groups: the largest companies are in the services/utilities industry group with average assets of over £9.8 billion, while the smallest companies in the sample are in the construction industry where average company assets amount to just over £735 million. It is clear from the standard deviations that there is a good deal of variation in all variables across the sample.

Turning to the correlation coefficients of the logarithms of the variables, we see that, as expected, *lnDON* is positively and significantly correlated with *lnSIZE* and *lnPROF*. There is also evidence of significant negative correlation between *lnDON* and *lnOWN* (contrary to our expectations) and of positive correlation between *lnDON* and *lnLEV* (also contrary to our expectations), but in this case the correlation coefficient is not statistically significant at the five per cent level. The correlation coefficients between pairs of independent variables presented in Table 1 are quite low (all are less than 0.44) and so do not suggest any problems associated with multicollinearity. However, as collinearity can exist between more than two independent variables, variance-inflation factors were computed in the manner recommended by Belsley, Kuh and Welsch (1980).⁵ The results are summarised in the final part of Table 1. Since all of the calculated variance-inflation factors are less than 2, interaction between the independent variables does not appear to be problematic.

Table 1
Means, Standard Deviations, Pearson Correlation Coefficients and
Variance-Inflation Factors

This table shows the means and standard deviations (in parentheses) of the variables used in the study, classified into four industry groups. A Pearson correlation matrix for all the variables in the regression model is also shown, together with variance-inflation factors to test for multicollinearity.

Means and Standard Deviations

<i>Industry group</i>	DON (£m)	LEV	SIZE (£b)	PROF	OWN	<i>Sample size</i>
1. <i>Construction</i>	0.14 (0.22)	0.29 (0.22)	0.74 (1.13)	0.06 (0.06)	0.25 (0.26)	8
2. <i>Services/Utilities</i>	1.40 (3.30)	0.18 (0.19)	9.81 (22.8)	0.16 (0.17)	0.23 (0.19)	30
3. <i>Manufacturing/ Engineering</i>	0.53 (1.31)	0.17 (0.17)	2.67 (6.95)	0.09 (0.09)	0.22 (0.15)	42
4. <i>Other</i>	1.51 (4.44)	0.26 (0.19)	3.41 (7.00)	0.14 (0.13)	0.26 (0.23)	20
<i>All industries</i>	0.95 (2.82)	0.20 (0.19)	4.81 (13.9)	0.12 (0.13)	0.23 (0.19)	100

Correlation Coefficient Matrix

	<i>lnLEV</i>	<i>lnSIZE</i>	<i>lnPROF</i>	<i>lnOWN</i>
<i>lnDON</i>	0.10	0.81*	0.36*	-0.36*
<i>lnLEV</i>		0.23*	0.04	-0.24*
<i>lnSIZE</i>			0.28*	-0.43*
<i>lnPROF</i>				0.16

Variance-Inflation Factors: *lnLEV* 1.09 *lnSIZE* 1.35 *lnPROF* 1.09 *lnOWN* 1.27

Regression Results

The log-linear discretionary donations equation was estimated by ordinary least squares (OLS) and a number of additional diagnostic tests were performed. The parameter estimates and test statistics which resulted from the estimation are summarised in Table 2. The estimate of the coefficient of *lnOWN* had an expected negative sign, but was found to be insignificantly different from zero ($t = -0.28$). It was, therefore, omitted from the equation. Its exclusion from the model had only a marginal effect on the magnitude and significance of the other estimates. All of the remaining parameter estimates have expected signs and are statistically significant at the five per cent level in one-tailed tests. The F-statistic of 67.74 enables us to reject the hypothesis that $b_1 = b_2 = b_3 = 0$, and the adjusted R-squared value of 0.67 indicates a reasonably good fit, particularly in a model using cross-section data.

Hypothesis Tests

We now consider the implications of the regression results for the four hypotheses proposed above.

Hypothesis 1: The estimate of the *lnLEV* coefficient (b_1) is negative, as expected, and is just statistically significant at the 0.05 level in a one-tailed test. This supports the view, therefore, that lowly leveraged companies make larger discretionary donations than more highly leveraged companies as the low contracting costs associated with low leverage enable companies to satisfy the implicit claims of external contingencies (such as the government and local communities). The parameter estimate of -0.21, which can be interpreted as the elasticity of discretionary donations with respect to leverage, suggests that, *ceteris paribus*, a 10 per cent increase in a company's leverage will lead on average to a 2.1 per cent increase in its discretionary donations. Thus, the regression results provide clear support for Hypothesis 1 and help to confirm the findings of researchers such as Barton *et al* (1988) who argue that corporate social responsibility is linked to a company's capital structure.

Table 2**Parameter Estimates and Test Statistics**

This table shows the OLS parameter estimates for the discretionary donations equation using data from a sample of 100 UK listed companies in 1994. A selection of diagnostic test statistics is also shown.

<i>Parameter¹</i>	<i>Estimate²</i>	<i>t-value</i>
b_0	-8.95*	11.25
b_1	-0.21*	-1.66
b_2	1.00*	12.73
b_3	0.28*	2.38
b_4	-	-

Test Statistics

<i>Mean of the dependent variable</i>		-2.65
<i>Standard deviation of dependent variable</i>		2.63
<i>Standard error of the regression</i>		1.51
<i>F Statistic</i>		67.74
<i>White test³</i>	$c^2 =$	3.28
<i>Breusch-Pagan test⁴</i>	$c^2 =$	2.16
<i>Adjusted R-squared</i>		0.67

Notes

- b_1 is the coefficient of *lnLEV*; b_2 is the coefficient of *lnSIZE*; b_3 is the coefficient of *lnPROF*; b_4 is the coefficient of *lnOWN*.
- * = significantly different from zero at the 0.05 level or better (one-tailed tests).
- For the White test, the critical value of c^2 at the five per cent level of significance is 31.4. The null hypothesis of homoscedasticity cannot be rejected.
- For the Breusch-Pagan test, the critical value of c^2 at the five per cent level is 11.1. The null hypothesis of homoscedasticity cannot be rejected.

The White and Breusch-Pagan test statistics do not allow us to reject the hypothesis of homoscedasticity at the five per cent level of significance.

Hypothesis 2: Statistically, the estimate of the coefficient of *lnSIZE* (b_2) is significantly greater than zero at the 0.001 level or better. The estimate (equal to 1.0), which can be interpreted as the elasticity of discretionary donations with respect to a company's asset size, suggests that, *ceteris paribus*, any given percentage increase in company size will lead on average to an equal percentage increase in discretionary donations. Thus, we have found clear support for Hypothesis 2 (derived from the theoretical work of Roberts, 1992, and Cowen *et al*, 1987), according to which larger companies engage in more socially responsible activities than smaller companies. Interestingly, a parameter estimate of 1.0 implies that the average value of discretionary donations *per pound of assets* is approximately the same for all sizes of companies.

Hypothesis 3: Statistically, the estimate of the coefficient of *lnPROF* (b_3) is significantly greater than zero at the 0.01 level or better in a one-tailed test. This finding supports the view that more profitable companies are more likely (and more able) to contribute discretionary donations than less profitable companies. The parameter estimate of 0.28 suggests that, *ceteris paribus*, a 10 per cent increase in a company's profitability will lead on average to a 2.8 per cent increase in discretionary donations. Thus, our results support Hypothesis 3 and are consistent with the views of Ullman (1985), McGuire *et al* (1988) and Roberts (1992).

Hypothesis 4: The estimate of the coefficient of *lnOWN* (b_4) was not significantly different from zero at the 0.05 level. This finding does not, therefore, support the view that there is a negative relationship between a company's ownership structure and level of discretionary donations. Thus, the results do not support Hypothesis 4.

Sensitivity Tests

Next, we extended the regression analysis undertaken above to include two sensitivity tests. First, we tested for industry effects. Roberts (1992, p. 605) reports that ". . . industry classifications used in prior research . . . have captured some systematic relation between broad industry characteristics, such as intensity of competition, consumer visibility or regulatory risk, and social responsibility activities". Cowen *et al* (1987, p. 113) share a similar view in stating that ". . . some

industries . . . feel greater government pressures in certain areas of corporate social responsibility and are, therefore, more likely to enhance their image through social responsibility [activities]. . .". In our test, three dummy variables were included in the discretionary donations equation for the construction, services/utilities and other industry groups (with manufacturing/engineering used as a control group). In the regression, none of the dummy variables had coefficient estimates significantly different from zero (the t-values were -0.23, -1.24 and -0.87 respectively). Thus, contrary to the expectations of Roberts (1992) and Cowen *et al* (1987), we are able to find no statistically significant industry effects on the corporate decision to contribute discretionary donations.

Second, we examined whether our results were influenced by the nationality of the companies included in the sample. Haley (1991, p. 498) argues that “. . . managers may use contributions to reassure communities. For example, multinational corporations often use community contributions to legitimize subsidiaries in host countries”. On this argument, we might expect non-UK owned companies to be larger contributors of discretionary donations than UK-owned companies. To test this, a dummy variable, D, was included in the discretionary donations equation (D = 0 for companies with a non-UK majority ownership, and D = 1 for companies with a UK majority ownership). In the regression, the estimate of the coefficient of D was positive (contrary to our expectations), but was not significantly different from zero at the five per cent level (t = 0.26). Thus, we are able to conclude that our results are not sensitive to the nationality of the companies in the sample.

CONCLUSION

This study tests empirically the determinants of the discretionary donations made by UK companies. Drawing a framework from stakeholder theory, four hypotheses are tested using 1994 cross-sectional data drawn from the full population of companies listed on the LSE. Consistent with our hypotheses, the results suggest that the level of corporate discretionary donations is positively related to company size and profitability and negatively related to leverage. Ownership structure is found to have an insignificant influence, and we also find no evidence of industry effects or of a link between discretionary donations and the nationality of the companies in the sample.

In addition to testing the four hypotheses, the estimated model enables us to compare the predicted levels of discretionary donations for different companies. For example, a large, profitable company with low leverage (say, assets of £10 billion, a profit rate of 0.25 and leverage of 0.05) would be predicted to contribute as much as £1.65 million per annum in discretionary donations. On the other hand, a small, unprofitable company with high leverage (say, assets of just £10 million, a profit rate of 0.05 and leverage of 0.5) would be predicted to contribute only £6,500 per annum. These predictions can be compared with the average level of discretionary donations by the companies in the sample of £950,000 per annum.

A possible limitation of the study is that the data used only covers a single accounting period and could therefore reflect time-specific effects such as annual fluctuations in the contributions made to charities and other groups by UK companies. A longitudinal study into the determinants of corporate discretionary donations could yield some interesting comparative results. Despite this shortcoming, we believe that the evidence reported in this study provides insights into the determinants of corporate contributions to social causes and offers at least a starting point for the conduct of some fruitful future research.

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NOTES

1. Roberts (1992) considers corporate social responsibility to involve activities which identify a company as being concerned with societal issues.
2. However, in absolute terms the annual amount donated by UK companies is only about one-tenth of the figure contributed by US companies. For example, Haley (1991) reports that US corporations contribute over \$6.5 billion per annum to charities and community projects.
3. Unfortunately, time and lack of research funds prevented time-series data from being obtained. Therefore, the possibility that our results may be influenced by time-specific events (*e.g.* short-term fluctuations in corporate donations due to economic recession) is acknowledged to be an inherent limitation of the study. In addition, published reports had to be used as the collection of data on corporate donations from Datastream proved to be problematic.
4. Section 211 of the UK *Companies Act 1985* requires companies to maintain a register of shareholdings in excess of 3 per cent of the total number of shares in issue. As a result, UK listed companies routinely disclose details of their major shareholdings in the directors' report.
5. The variance inflation factor is computed as $1/(1 - R^2)$, where R^2 is derived from the regression of each independent variable on all the other explanatory variables.

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