CORPORATE GIVING IN NEW ZEALAND: ASSESSING THE EFFECTS OF SIZE AND GOVERNANCE ON SPONSORSHIP AND DONATIONS

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ABSTRACT

Raising money from corporate giving has always been an essential focus for not-for-profit organisations in fulfilling their key aims. However, with an increasing number seeking such funds to undertake their activities, it is likely that corporations are receiving increasing requests for sponsorship and donations. The marketing literature has reported a range of benefits associated with giving, particularly when there is alignment with corporate image. There has also been a consistent call by shareholder groups for corporations to return any surplus funds to owners for re-distribution. These competing pressures suggest that it could be useful to examine whether there have been any changes in corporate giving activities, specifically in New Zealand, and if these are related to corporate characteristics.

INTRODUCTION

The number and range of not-for-profit organizations (NFPs) continues to increase every year. In the United States alone, the number rose to 1.54 million by 1998 [7]. With the occurrence and media coverage of natural disasters and humanitarian tragedies, concerned individuals around the world have mobilized to form a range of organizations to attempt to provide aid. Concurrent with such large scale events are the needs of other organizations in the arts, sports or local needs sectors, which require funds to support their projects and ongoing activities. In combination, the needs of these NFPs have outpaced the abilities or desires of most national and local governments, prompting NFPs to seek the additional funds they require elsewhere. Large corporations around the world are prominent targets in the pursuit of the funds required.

The last 30 years has also seen a consistent call by some shareholders for any surplus funds to be returned to the owners of the corporation, who are perceived to be best placed to determine how such funds should be utilized. Friedman states that the only social responsibility of the corporation is to "make as much money as possible while conforming to the basic rules of the society" [5, p.249]. Similarly, Jensen [6] argues that any free cash flow should be returned to owners, with discretionary expenditures related to other stakeholders being reasonable only if they create benefits through maximizing shareholder wealth. In New Zealand, recently, Contact Energy Shareholders' Association Chairman Bruce Sheppard echoed these sentiments in noting that "companies should not be making political or even charitable donations. What they should be doing is distributing more in dividends and letting shareholders make decisions as to where they wish to put their charity." Thus, large corporations appear to be facing higher scrutiny of how their funds are allocated because of their prominence in either global or local share markets. In their international review of sponsorship literature, Cornwell and Maignan note that sponsorship has changed through the years, becoming more market driven and replacing philanthropic sponsorships which may have been based on personal interests of senior managers [3]. The practise of donations and sponsorship appears to becoming more strategic and more measured than in the past. It is also possible that some NFPs will be supported through sponsorship rather than donations partly because sponsorship is not reported as a separate line item in New Zealand

(NZ) financial statements, instead subsumed in marketing or other expenditures. Overall, these examples suggest that there is value in investigating whether there are systematic relationships between corporate giving and corporate characteristics such as size or governance structure and whether these relationships may have changed over time. This research sets out to examine such relationships by studying corporate sponsorship and donations in a sample of larger NZ organizations. Effects of governance are assessed by including both publicly-traded corporations as well as prominent state-owned enterprises (government-owned organizations that operate and report their results in a similar manner to publicly-traded corporations, except that the NZ government is the only shareholder).

HYPOTHESIZED RELATIONSHIPS

Firm Size and Performance

Seifert et al. note that there is "scant empirical evidence on the relationship between corporate philanthropy and available resources" [8]. Overall, though, most studies of corporate giving hypothesize that, if a relationship exists between corporate giving and size, the relationship will be positive. In terms of performance, the corporate social responsibility literature has argued that returning some profits to other stakeholders may be beneficial to performance, however the extent to which this actually occurs is not clear with some studies finding a positive relationship and others not. Consistent with these studies, size and performance are included here using a variety of measures (total assets, total revenue, gross margin, profits, market value as well as return on assets and return on sales) to assess the hypothesis that the larger an organization's resources, the greater its corporate giving.

Changes Over Time

The climate for corporate giving has changed in recent years [4]. For example, Bartkus et al raise the issue of whether "the events of September 11 may have changed how firms and individuals view philanthropy. We are in a period of greater uncertainty in which attitudes toward philanthropy may be changing" [1]. This suggests that it is worthwhile to examine corporate giving longitudinally to assess whether the pattern of giving has changed or remained stable, in line with Campbell et al. [2] who report that the rate of change has been increasing in the UK. Drawing on these studies, it is proposed that over time, the rate of corporate giving in large NZ organizations will have increased.

Sponsorship vs. Donations

Literature on sponsorship [3], corporate giving and strategic philanthropy suggest that these decisions are likely becoming more strategic. Thus, it is useful to consider differences between corporate donations and sponsorship. However, given that donations are treated differently from a tax standpoint and reported prominently in financial statements whereas sponsorship is not necessarily highlighted in financial terms to the same extent, we propose that, over time, large organizations will increasingly provide funds to NFPs as sponsorship rather than through donations.

New Zealand's State-Owned Enterprises

In adopting free-market reforms in the mid-1980s, successive NZ governments have taken a view that there are some governance advantages to the for-profit mode of operation. As a result, a number of government-owned services have been restructured so that they operate as crown corporations/state-owned enterprises (SOEs), paying tax, returning a dividend to their sole shareholder (the NZ Government) and producing audited annual reports. As a result, New Zealand has a unique type of major corporation that is similar in terms of governance to those listed on the NZ stock exchange, but differs in that they report to a single shareholder, the Government. This may mean that their perspective on corporate giving varies from that of the typical shareholder, blockholder or institution. Thus, the relationship between organizational resources and corporate giving, the increase in the relationship between organizational resources and corporate giving, and the trend toward using sponsorship vs. donations should differ in SOEs vs. publicly-traded corporations.

SAMPLE AND PRELIMINARY FINDINGS

The sample for this study consists of publicly-traded corporations in New Zealand and Government owned crown entities (6-10 matched organizations). Because NZ organizations are generally smaller than those in other parts of the world, donations in this sample ranged from $50,000 to over $1,000,000. Data to test the hypotheses draws primarily on annual reports, which for some organizations span the late 1980s until 2004. For the SOEs, the annual reports begin in the mid to late 1990s, reflecting their more recent restructuring and governance changes. Data from the reports are assessed using both quantitative and qualitative techniques. Since sponsorship and donations are not always reported separately and sponsorship data are often unavailable, sponsorship activities are assessed qualitatively from annual reports as well as the corporation's website. The annual report data provide a longitudinal consideration of the prominence given to sponsorship (vs. donations). The website data, however, are restricted to the corporation's current representation of sponsorship and donation activity. Preliminary analysis of the data available suggests some support for the first two relationships. Furthermore, analyses of websites indicate that SOEs also engage extensively in sponsorship with limited emphasis on presenting giving as donations. To some extent, this may reflect an accurate portrayal of the actual exchange, where the cash provided leads to both significant acknowledgement of the funds by the NFPs as well as leveraging by the SOEs in their other marketing activities. It may also reflect a lesser focus by SOEs on reducing tax payable through claiming donations. Overall, this study extends previous cross-sectional research to consider relationships between corporate characteristics and corporate giving in a New Zealand context. In particular, this leads to a focus on SOEs and comparing their giving to that of publicly-traded corporations. This comparison has the potential to ascertain the extent to which shareholder and economic pressures do refocus corporate giving. Furthermore, this study will help in identifying whether arguments presented by corporate social responsibility theorists are becoming more prevalent, since appropriate corporate sponsorship holds significant potential for leveraging social investments into longer-term financial returns.

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