Financial Slack and Upper Echelon Traits as Predictors of Corporate Philanthropy in Nigeria

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Abstract

This study examines financial slack and certain upper echelon traits as predictors of corporate philanthropy in Nigeria. It investigates whether financial slack (proxied by current and debt-equity ratios) and Upper echelon traits (denoted by female and non-executive directors) have a predicting power on philanthropy. The ordinary least squares (OLS) regression was used to estimate the relationship between philanthropy and the independent variables. Findings from the study show a positive impact of available financial slack and firm size on philanthropy. However, a neutral association was observed between potential financial slack, presence of female director, proportion of non executive directors and corporate philanthropy. The study recommends that firms' philanthropic initiatives should be reflective of their corporate size and liquidity level.

Keywords: Corporate philanthropy, financial slack, upper echelon, female directors, non-executive directors.

1. Introduction

Corporate social responsibility(CSR) is a burning issue in the Nigerian society. Regardless of various attempts to anatomize the matter, it has refused to be completely addressed. It remains one of the most debated management philosophies. In May 2008, the Federal Executive Council (FEC) approved the development of a CSR policy for the country to instill ethical behavior in Nigerian businesses. The policy was to incorporate corporate governance and ethics, health and safety, human rights, human resource management and philanthropy. However, CSR in Nigeria has taken more of a philanthropic face as this is given the highest priority (Adeyanju, 2012).This is because the socio-economic demands of the Nigerian societies in which organizations operate are at the highest, thus philanthropy and charity has become an expected and standard norm.

Nigerian societies almost completely survive on foreign aids and the resultant effect is an over dependence on philanthropy. However, philanthropic giving on one hand can be engaged in as a 'strategic' behavior that is designed solely to minimize corporate taxes, thereby robbing the government of revenue to meet its obligations to the people. On the other hand, tax payment is a part of the corporate social responsibility (CSR) agenda as businesses are also deemed to be corporate citizens.

In this light, some organizations such as the Zenith Bank Nigeria have adopted profit after tax (PAT) to CSR and as such steering away suspicion associated with CSR activities as an instrument of tax avoidance.

Corporate philanthropy has become an important subject to managers (Buccholz, et al, 1999; Post and Waddock, 1995; Saiia et al 2003; Werbel and Wortman, 2000). The issue of charitable giving finds itself embedded in the broader debate of CSR (Vaidyanathan, 2008). Porter and Kramer (2002) recognize corporate philanthropy as a key component of CSR.

Scholars argue that it can and should be strategically aligned with the firm's vision and strategy in order to benefit the society and as well trigger significant returns for the firm. According to Margolis and Walsh (2003), a company without such social investment will find it extremely arduous to manage the pressure of various stakeholders. Links have been documented between philanthropy and strategic outcomes including corporate reputation (Formbrun, 1996) and employee commitment (Greening and Turban, 2000) or as a means of co-opting stakeholders (Pfeffer and Salancik, 1978). However, this approach to social responsiveness must be deliberately strategic, else, targeted efforts will not be sustainable and could end up harming a society which depends on them (Vaidyanathan, 2008).

Bruch and Walter (2005) advise that for companies to avoid typical mistakes that go with charitable giving, they must clearly define their philanthropic commitment and specify limits and also their exit options in order not to be over committed. The study on corporate philanthropy is still very sparse and the reporting of charitable donations has received very little attention in academic literature (Campbell and Slack, 2008). It is an area that remains less explored than other theories of CSR despite its importance (Campbell, et al, 2002). Prior studies have sought to identify possible predictors of corporate philanthropy engagement (Ahmad et al, 2009). Studies have examined the influence of firm size (Amato and Amato, 2007), industry classification and corporate governance (Wang and Coffey, 1992, Bartkus et al, 2002) but little has been investigated as to the link of financial slack to corporate philanthropy).

This study is thus geared to fill this void and ascertain the potential effects of slack resources and certain upper echelon traits on corporate philanthropy.

2. Theoretical Underpinnings, Prior Research and Hypotheses Development

2.1 Slack Resources Theory

The conceptual discussion of the slack resources theory can be traced to organizational theorists such as Barnard (1938) and Thompson (1967) who argued that protecting the core of the organization from rapid changes in the firm's external environment through the use of slack resources is an important managerial role and that efficient management of resources is crucial for an organization to ensure sustainability in an overwhelming competitive landscape. Scholarly works have shown that financial slack influences managerial decision making (Singh, 1986). According to Liu (2010), managers are predisposed to expand their portfolio of decision making knowing that they have slack financial resources which they can use to invest in the complementary strategic 'investments'.

Bourgeois (1981) defines slack as 'the cushion of actual or potential resources which allows an organization to adapt successfully to internal pressure and initiate changes in strategy with respect to the external environment'. Nohria and Gulati (1996) define slack as 'the pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output.

This study however defines slack as the ability to borrow more or have cash in hand to respond quickly in a discretionary manner to a changing environment.

Bourgeois and Singh (1983) categorized slack resources along a continuum of development and break it into three types: available slack, recoverable slack and potential slack. They define available slack as slack resources available such as cash and marketable securities. Recoverable slack represents slack resources that an administrator can use, but requires some effort to capture the slack for instance sale or redeployment of surplus capital equipment or buildings (Williams, 2011), while potential slack focuses on revenue sources external to the organization such as resources created from debt or equity markets. A similar measure to Bourgeois and Singh's three types of slack, Sharfman et al (1988), Tan and Peng (2003) and Busch (2002) categorise slack upon a scale of 'absorbed' and 'unabsorbed' slack, with absorbed slack being excess costs in an organization and unabsorbed slack being undeployed resources. Greenley and Oktemgil (1998) classify slack as generated slack and invested slack. Generated slack refers to available resources for developing strategy options whilst the latter refers to the deployed or absorbed resources which may reduce opportunity to develop strategy options for future flexibility. They see cash flow as denoting the available resources which can be applied to a range of options subject to the manager's discretion. The slack availability of resources explains that corporate philanthropy could possibly be a result of the availability of financial resources without which it would be arduous for companies to satisfy stakeholders' claims to charitable issues.

2.2 Upper Echelon Theory

The upper echelon theory states that the organization's strategic choices and performance levels are partially predicted by managerial characteristics (Hambrick and Mason, 1984). It focuses on the ways in which the biases and characteristics of senior leaders influence the range of strategic options they consider and the decision making process by which they select from among those options (Finkelstein et al, 2009).

Wood (1991) argues that personal and managerial characteristics might be related to corporate social responsibility and these calls for consideration of the theory in examining social responsiveness and ethics. Corporate philanthropy strategy is formulated at the top, as previous studies have shown that philanthropic characters at firm level are influenced by characteristics of the managers responsible for disbursement (Galaskiewiez, 1997).

To untie the possible impact of upper echelons on philanthropy, this study focuses on managerial characteristics at the board level and thus examines board independence (to the extent of non-executive positions) and female director presence.

It is expected that independent non-executive directors are to represent the interests of other stakeholders, and should have more influence on corporate philanthropy (Haniffa and Cooke, 2005). On the other hand gender composition is not indifferent in the board's decision making (Terjesen et al, 2009; Bear et al, 2010). According to Ibrahim and Angelidis, 1991; female directors displayed a stronger orientation toward the discretionary component of corporate social responsibility than male directors; while having women on boards of directors was positively related to the firm's corporate philanthropy (Williams, 2003).

Applying the above discussed arguments and findings to the study, it is thus reasonable to put forward the following null hypotheses:-

H_1: Available financial slack is not a significant predictor of corporate philanthropy in Nigeria.
H_2: Potential financial slack is not a significant predictor of corporate philanthropy in Nigeria.
H_3: Board independence has no significant impact on corporate philanthropy in Nigeria.
H_4: Female director presence has no significant impact on corporate philanthropy in Nigeria.

3. Methodology

A total of twenty five (25) firms were randomly selected from all existing sectors of the Nigerian Stock Exchange for the period 2005-2007. The financial services and utility services were excluded because of the special regulatory environment in which they operate. However, this sample is considered a good representation of quoted companies in Nigeria since it covers all the sectors on the exchange. The sample selection also conforms to the propositions of Emory and Cooper (2003) that the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent. More so, the sample size is in line with Hair et al (1987) sample size determination.
All the data used for the study were sourced from the annual reports of the selected firms.

3.1 Dependent and Independent Variables

The dependent variable of the study is corporate philanthropy which is represented by charitable donations made by sample firms. The independent variables are Available Financial Slack, Potential Financial Slack, Proportion of non-executive directors (board independence) and female director presence.

Along the line of Daniel et al (2004), this study uses the current ratio as a proxy for available slack and the debt to equity ratio as a proxy for potential slack. While board independence is denoted by the proportion of non-executive directors to the board size, female director presence is represented by a dummy which equals 1 (one) where there exists a female director and 0 where there is none.

3.2 Model Specification

$CPit = B_o + B_1ASLK + B_2PSLK + B_3IND + B_4FPRES + eit$………… (1)
Where CP = Corporate Philanthropy
ASLK = Available Slack

PSLK = Potential Slack
IND = Board Independence
FPRES = Female Director Presence

A key factor that influences corporate philanthropy is firm size (Amato and Amato, 2007; Boatsman and Gupta, 1997; Galaskiewiez, 1997). While some previous works did not reveal any statistically significant relationship of firm size with corporate giving (Seifert et al, 2004); Amato and Amato (2007) confirms a nexus between firm size and the level of philanthropy. In other words, for large firms which deal with more public visibility and scrutiny, philanthropy can be a source of necessary goodwill with its ripple beneficial effects on the bottom line.

This study thus controls for firm size and proxies this as the natural logarithm of total assets. Thus, it is pertinent to hypothesize in null form:

H_5: Firm size has no statistical significant impact on corporate philanthropy.

The model then appears as:-
C Pit = $B_o + B_1$ASLK + B_2PSLK + B_3IND + B_4FPRES + B_5SIZE + eit….. (2)

4. Results and Discussion

4.1 Empirical Findings

Analyses were carried out with the aid of the statistical package for social sciences (SPSS version 17.0). An analysis of the descriptive statistics as presented in table 4.1 reveals that on average, 45% of the sampled firms in this study have the presence of a woman on their boards of directors. Also, 41% of the boards of the directors of the sampled firms are non-executive directors. Some of the sample firms made no donations while the range stood at 9.93. Available slack had an average of 1.32 for the sample firms while minimum and maximum liquidity levels were (0.02 and 2.97). Potential slack on the other hand had a mean score of 1.74 while minimum and maximum slack levels of -4.35 and 8.47 were documented.

Insert Table 4.1 about here

Table 4.2 gives the correlation matrix among the variables. This matrix shows the association between these variables. From the table, it is crystal clear that there exists a significant positive correlation between the available slack and corporate philanthropy while potential slack had a similar positive association but not significant. This shows that the two types of slack are not functionally equivalent. Firm size has also been found to have a very strong positive correlation with philanthropy. However, the board independence and female director presence have no significant correlation with philanthropy at (0.05) level of significance.

The matrix of correlation does not show any correlation higher than ‘0.45’ between the independent variables. This presents an argument for the absence of multicollinearity in the model. The variance inflation factor in Table 4.5 with all the VIF values under the threshold of “2” confirms the absence of multicollinearity (Field, 2000), thus fulfilling the assumption of a regression model on collinearity.

Insert Table 4.2 about here

Table 4.3 shows the goodness of fit with an adjusted R^2 of 23.2%. This in a nutshell suggests that 23% of the changes in the dependent can be explained by the regressors. This value can be considered reasonable because the corporate philanthropy of a firm is also influenced by other factors besides its board traits and financial slack. The Durbin Watson test is used to detect the presence of autocorrelation. The DW statistic from this study stands at 1.89. This is less than the threshold of ‘2’ and thus confirms the absence of autocorrelation thereby giving a guarantee of the fitness of the model. The F-test with a P-value less than 0.05 (P-value < 0.05) is documented. This suggests clearly that the model has a predicting power on philanthropy. However, the T-test on table 4.5 shows that only available slack and firm size have positive statistical significant impact on philanthropy while potential slack, female director presence, and board independence have no statistical significant impact on philanthropy.

Insert Table 4.4 and 4.5 about here

5. Conclusion and Recommendation

The results of the study corroborate the findings of Amato and Amato (2007) that a key factor that affects corporate giving is firm size and public visibility of a firm triggers its response to maintain a corporate image by generous giving. The study also reveals that the presence of a female director is more or less a symbol rather than substance facilitating social responsiveness. This validates the findings of Ahern and Dittmar (2011) that the presence of female directors has a neutral effect on social and financial performance.

Potential slack has been found to have no significant impact on philanthropy. The finding is consistent with Belkaoui and Kerpik (1989) that neutral or negative association between leverage and corporate social performance can be found in companies because of the adherence to strict debt convenants which results in decreases of their ability to spend resources on corporate social activities. However, the study documents a positive statistical impact of available slack on philanthropy. This lends justification to the arguments of Ahmad et al (2009) that the liquidity of a firm plays a significant role in determining the companies' involvement in corporate philanthropic activities. This study also interestingly contradicts the findings of Ibrahim et al,2003;Ibrahim and Angelidis, 1995; and Coffey and Wang, 1998; that non-executive directors are more conscious of philanthropic components of corporate social responsibility than their executive counterparts. A neutral effect was found in this study.

The findings of this study highlight an area of growing concern for both business and society. The involvement of firms in philanthropy is only enhanced by its size and liquidity levels and as such, firms should only carry out philanthropy reflective of their corporate sizes and cash flows. The involvement of board traits in the process of philanthropic decision making in Nigeria is likely to gain increased attention over the years due to the growing societal demands on firms on the ethical dimension of corporate decision making. Thus additional research is necessary to ascertain what possible board or upper echelon characteristics translate into philanthropic involvement by firms in Nigeria. The study also recommends that managers consider philanthropic initiatives in the light of the firm's corporate abilities and smaller firms only give 'minimally' and 'strategically' just to maintain a customer relationship at the local level and thus strengthen competitive advantage.

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Table 4.1 Descriptive Statistics

	N	MINIMUM	MAXIMUM	MEAN	STD. DEVIAITON
Corporate Philanthropy	75	.00	9.93	4.3760	2.97190
Current Ratio	75	.02	2.97	1.3239	.67096
Debt Equity Ratio	75	-4.35	8.47	1.7381	1.90174
Board Independence	75	.00	.93	.4125	.24691
Female Presence	75	.00	1.00	.4533	-50117
Firm Size	75	4.81	7.86	6.5369	.70074
Valid N (Listwise)	75				

Table 4.3 Model Summary[b]

R	R Square	Adjusted R square	Std. Error of the Estimate	Durbin-Watson
.533[a]	.284	.232	2.60450	1.890

a. Predictors: (Constant), Firm Size, Current Ratio, Debt Equity Ratio, Female Presence, Board Independence.
b. Dependent Variable: Corporate Philanthropy.

Table 4.4 ANOVA

	Sum of squares	Df	Mean square	F	Sig.
Regression	185.528	5	37.106	5.470	.000*
Residual	468.055	69	6.783		
Total	653.582	74			

Dependent variable: Corporate philanthropy
*Significant at 0.05 level

Table 4.5 Coefficient Estimates

	Unstandardized coefficients		Standardized coefficient			Collinearity Statistics	
	B	Std. error	Beta	T	Sig.	Tolerance	VIF
(constant)	-11.241	3.220		-3.492	.001		
Current ratio	1.555	.507	.452	3.067	.003*	.791	1.264
Debt equity ratio	.122	.168	.078	.728	.469	.902	1.109
Board independence	1.533	1.405	.127	1.091	.279	.762	1.312
Female presence	.949	.695	.160	1.365	.177	.755	1.324
Firm size	2.082	.467	.491	4.456	.000*	.855	1.169

Dependent variable: Corporate philanthropy
* Significant at 0.05% level

Table 4.2 Correlations

Person correlation	Corporate philanthropy	Current ratio	Debt equity ratio	Board independence	Female presence	Firm size
Corporate philanthropy	1.000		.086	.054	.169	.442
Current ratio		1.000	-.234	.258	.388	.018
Debt equity ratio	.086	-234	1.000	-.089	-.210	.167
Board independence	.054	.258	-.089	1.000	.373	-.324
Female presence	.169	.388	-.210	.373	1.000	-.144
Firm size	.442	.018	.167	-.324	-.144	1.000
Sig. (2-tailed)						
Corporate philanthropy	.	.035	.232	.324	.073	.000
Current ratio	.035	.	.022	.013	.000	.441
Debt equity ratio	.232	.022	.	.224	.035	.076
Board independence	.324	.013	.224	.	.000	.002
Female presence	.073	.000	.035	.000	.	.109
Firm size	.000	.441	.076	.002	.109	.
N	75	75	75	75	75	75

Correlation is significant at the 0.05 level (2-tailed)

Appendix 1: **List of Selected Firms for the Study**

S/N	NAME OF FIRM	SECTOR
1	CAP PLC	CHEMICAL AND PAINTS
2	CAPPA & D'ALBERTO PLC	CONSTRUCTION
3	A.G LEVENTIS NIGERIA PLC	CONGLOMERATES
4	ASHAKA CEM PLC	BUILDING MATERIALS
5	7.UP BOTTLING COMPANY PLC	FOOD/BEVERAGES & TOBACCO
6	BETA GLASS CO PLC	PACKAGING
7	ACADEMY PRESS PLC	PRINTING & PUBLISHING
8	MOBIL OIL NIG. PLC	PETROLEUM (MARKETING)
9	B.O.C GASES PLC	INDUSTRIAL/DOMESTIC
10	THOMAS WYATI NIG. PLC	COMPUTER/OFFICE EQUIPMENT
11	MAY & BAKER NIG PLC	HEALTH CARE
12	RT BRISCOE PLC	AUTOMOBILE & TYRE
13	C & I LEASING PLC	MANAGED FUNDS
14	GUINESS NIG PLC	BREWERIES
15	OKOMU OIL PALM PLC	AGRICULTURE/AGRO ALLIED
16	JAPAUL OIL & MARITIME	MARITIME
17	UACN PLC	CONGLOMERATES
18	NIG. WIRE & CABLE PLC	ENGINEERING TECHNOLOGY
19	ADSWITCH PLC	SECOND TIER SECURITIES
20	IKEJA HOTELS	TOURISM
21	GLAXO SMITH KLINE CONSUMER	HEALTH CARE
22	DN MEYER PLC	CHEMICAL & PAINTS
23	TRANS NATION WIDE EXPRESS	COMMERCIAL SERVICES
24	UNITED NIG. TEXTILES PLC	TEXTILES
25	NIG. AVIATION HANDLING	AIRLINES