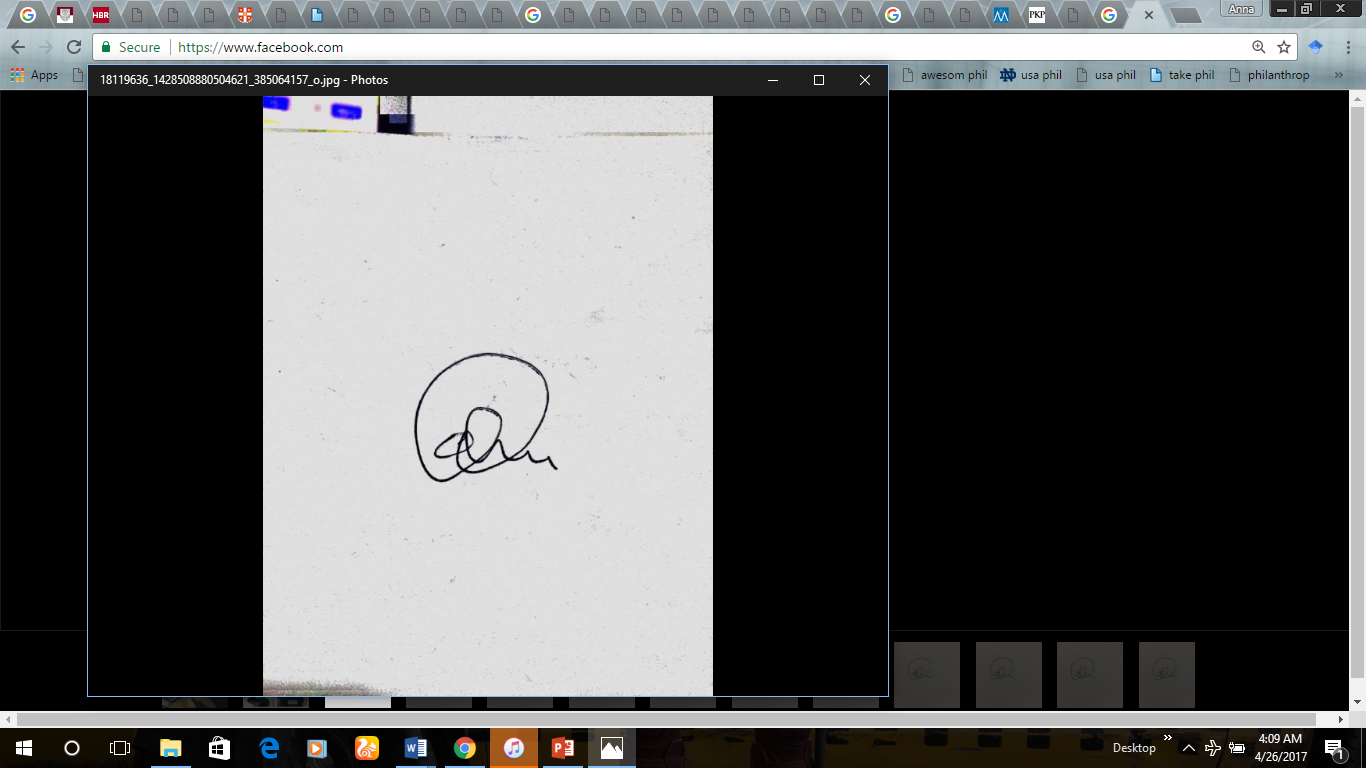
**Impact of corporate philanthropy on firm’s performance**



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# ABSTRACT

*The purpose of this study is to examine and analyze the impact of Philanthropic social responsibility on firm’s performance in the USA with a time range from 2011-2015. The research was conducted on the New York Stock Exchange (NYSE). Data was extracted from the selected 32 companies’ Annual Report, Sustainability and Corporate Social Responsibility Reports in the 3 sub-sector of the NYSE Manufacturing industry chosen for this study: Technology, Energy and Non-Consumer Durables. The methodological aspect of this study is Quantitative Research and adapted a descriptive explanatory design using a convenience sampling technique. The corporate philanthropy used in this study is community investment (which sums up the total cash and in-kind donations and other charitable acts) by the companies, to test firm performance; return on asset (ROA), return on equity (ROE) and Net Profit Margin (NPM). E-views software was used analyze Descriptive statistics, Pearson Correlation and Regression analysis which was employed in this study. In conclusion, the findings of this study indicate that community investment has a negative significant impact on ROA; and a negative insignificant on ROE and NPM. However, this study was challenged with time constraint and limited availability of data on CSR and Sustainability reports of the manufacturing companies. Future researchers are advised to take on more industries and companies. It is also recommended that other independent and dependent variables can be considered for a better dynamic on the impact of philanthropy.*

**Key Words: Philanthropic, Corporate Social Responsibility, Sustainability, Return on Asset (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Community Investment, Manufacturing Industry.**

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# Abbreviations

|  |
| --- |
| 1. ROA Return on Asset |
| 1. ROE Return on Equity |
| 1. NPM Net Profit Margin |
| 1. U.S.A United States of America |
| 1. NYSE New York Stock Exchange |
| 1. CP Corporate Philanthropy |
| 1. TBL Triple Bottom Line |
| 1. CSP Corporate Social Performance |
| 1. CSR Corporate Social Responsibility |
| 1. NASDAQ National Association of Security Dealers Automated Quotations |

# 1.0 INTRODUCTION

## ***1.1 Research*** background

This research’s purpose is to conduct a study on the impact of corporate philanthropy on the performance of firms in the manufacturing sector of the New York stock exchange (NYSE). The U.S manufacturing sector has been recorded to become the second largest with an approximate $1696.7 billion industrial output in 2010. In the year 2008, it had the greatest output more than India and China combined even though manufacturing is just a small portion of the whole U.S Economy (Nutting, 2016). Petroleum, steel, automobiles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber and mining are the largest manufacturing industries in the United States by revenue. (Kliesen and Tatom). This research however is considering 3 sub sectors of the U.S manufacturing industry found in the New York stock exchange (NYSE) which are energy, technology and non-consumer durables.

Central to the history of philanthropy in the United States is a vision of human connectedness, studies have shown that philanthropy in the USA has steadily risen over the last decades. As Ellen Lagemann (2009) has written, American philanthropy represents a long history of “efforts to establish the values, shape the beliefs, and define the behaviors that would join people to one another” (Lynn and wisely, 2011). The united states have the most philanthropically activities in the world. Statistics show that comparing with other industrial citizens of other companies, Americans are the most generous both in terms of money or of volunteering hours. (LeClair, 2014). Despite the economic crisis several of the companies in Fortune 100 reported high increase in their charitable givings in the year 2007 (Giving USA, 2008).

Over the years, there have been researches made worldwide on philanthropy. (Wang and Qian, 2009) made research on corporate philanthropy and corporate financial performance on Chinese Firms measuring on charitable contributions. Barde and Tela, 2015) studied on the impact of philanthropic responsibility on financial performance of listed Nigerian construction companies, multivariate regression and chi-square test were used. (ZULFIQAR, 2016) study was on the link between corporate philanthropy and financial performance in 166 Pakistani textile companies using donations and a combination of cross-sectional and longitudinal analysis. (Zhang, et al., 2009) made a study on Corporate Philanthropic Giving, Advertising intensity, and Industry Competition level on Chinese firms, with cash and in-kind donation as independent variables and ROA as the dependent variable. Another study by (Brammer & Millington, 2005) Corporate Reputation and Philanthropy: An Empirical Analysis on UK large firms with social and environmental charity as independent variables and size, ROA, leverage as dependent variables. Kenner et al., (2014) conducted research on the practice of corporate social performance in minority versus non-minority owned small businesses globally with charitable donation as their independent variable and ROA ROS as the dependent variable.

There have been studies on corporate philanthropy carried out in the USA, Wang et al.. (2008) studied on “Too Little or Too Much? Untangling the Relationship Between Corporate Philanthropy and Firm Financial Performance” on firms listed in the Taft Corporate Giving Directory with the independent variable as charitable giving and the ROA and Tobin’s Q as the dependent variables. DH Saiia et al., (2003) made research on Philanthropy as Strategy When Corporate Charity “Begins at Home” using firms found in the Taft Corporate Giving Directory with strategic giving as their dependent variables and ROA as the control variable. A comparative study between US and UK was carried out by Afshar (2012) corporate philanthropy in the uk and us: the impact of cycles, strategy and CEO succession. With an independent variable of cash and in-kind giving and profitability as the dependent variable. Liang and Renneboog, (2017) research was on corporate donations and shareholder value with cash donations, charitable donations, political donation as independent variables and ROA, ROE, and Tobin’s Q. The Impact of Operational Diversity on Corporate Philanthropy: An Empirical Study of U.S. Companies was conducted by (Kabongo, et al., 2013) with a total of 9 industries and an independent variable of total giving and dependent as ROA Tobin’s Q. (Vaidyanathan, 2008) conducted on Corporate giving: a literature review on corporate giving managers in the USA. Charitable giving was the selected independent variable. (Seifert, et al., 2003) made a study of Comparing Big Givers and Small Givers: Financial Correlates of Corporate Philanthropy in the USA with independent variables as cash donations and charities measuring with ROA, ROE ROS as dependent variables.

Therefore, from this past studies done, it is noted that the most common independent variables are Charitable giving, (Vaidyanathan, 2008), DH Saiia et al., (2003), (Wang and Qian, 2009) and Donations Liang and Renneboog, (2017), (ZULFIQAR, 2016), (Zhang, et al., 2009). While common independent variables are ROA (Kabongo, et al., 2013), Kenner et al., (2014) and ROE (Seifert, et al., 2003), Afshar (2012).

## 1.2 Research gap

Although as listed above, there have been quite several researches that have done in the U.S with several common variables like, charitable donations, cash and in-kind giving. However, this research will signify itself from the previous researches carried out on corporate philanthropy impact on firm’s performance done in the United States by further considering only community investment as an independent variable as an attempt to measure the total corporate philanthropy activities carried on by the selected US manufacturing companies. ROA & ROE are the commonly used as the dependent variable. This study made an inclusion of NPM which has been rarely used on Corporate Philanthropy. Also, most of the researches done in the USA haven’t been focused on a sector, many were on general views like big firms, small firms, managers or comparative studies. Hence, this research aims to bridge that research gap and make an immense contribution to the society by focusing on the manufacturing companies in the NYSE.

## ***1.3 research rationale***

Corporate philanthropy is embedded in a wider phenomenon of corporate social responsibility, which is a hot debated issue itself. Clarkson (1995), Hult et al., (1999) posits that business sole priority is to make profit and bear no responsibility to the society cited in (Mandina, et al.,2014). (Vaidyanathan, 2008) argued that companies only use corporate philanthropy as a tool for legitimization and public relations (Chen, et al., 2008). According to Forte, (2013) companies in the USA have been turning a blind eye to make a commitment to their community by implementing corporate giving, which has led to negative media reviews. However, some stated that companies should not be all about making profits and pleasing shareholders, they must be worried about the well-being of the society, while simultaneously benefiting in return, (Mandina, et al., 2014).

In the 19th century several court rulings have considered corporate giving as illegal known as “ultra vires”. The issue extended till the 20th century. Nevertheless, the legalization of corporate philanthropy was established in 1953 by the U.S supreme court (Adams & Knutsen, 1995). Corporate giving as been regarded as an immoral act, for companies to give away stockholder money in the name of giving and stockholders could sue the companies (Brenner 1987 cited in Vaidyanathan, 2008). According to late Milton Friedman (1962), societal activities and problems are the job of the government and legislation, companies are meant to focus on maximizing profits and not be concerned about corporate giving cited in (Shabana1, 2010). (Akdoğan & Bay, 2014) concluded that it has become more difficult for companies to gauge how corporate philanthropy impacts on the firm’s performance and base a decision on iT. However, consumers are more aware now of companies who make corporate giving them priority and how they treat the society, thus making it a big responsibility for companies to act responsibly to the community, as it will affect consumer’s behavior towards the firms.

Despite the critics against corporate philanthropy, number of companies today gotten more engaged in the Global reporting initiatives. (Rangan, et al., 2012). Nevertheless, application of Corporate philanthropy seems harder than in theory. It been attested by several authors as to how difficult it is to measure the corporate giving of community as well as the return company benefits today extends beyond just cash donations, but includes employee volunteering, scholarships. (Adams and Knutsen, 1995). Moreover, businesses are in more neck to neck competition today, companies tend to new corporate philanthropy as way profits can be increased as it gives a good reputation to them and hence increasing demands. (Österman, 2014)

## ***1.4 Significance of the research***

There haven’t been a lot of research done in this field in the United State especially on the manufacturing industry. This study therefore, will be adding more insight on corporate philanthropy using the chosen independent variable. Further contribution to the public will be made by presenting them with vision on how to operate socially and responsibly in the current trends. Moreover, this study will be beneficial to companies, managers and community to help improve their knowledge and managerial practices on the concept and fundamentals of corporate philanthropy and expand the recognition of the significance of making decisions primarily on it. It will however, help future researchers willing to consider this field with framework and results to develop their study.

## ***1.5 Research aim***

This research aims to find out the impact of corporate philanthropy on firm’s performance using selected companies listed on the NYSE with the time span of 5 years (2011-2015). The Corporate Philanthropy will be gauged using the independent variable community investment, whilst the firm’s performance will be measured via the dependent variables ROA, ROE and NPM (return on asset, return on equity and net profit margin respectively).

## ***1.6 research questions***

* What is the impact of Community Investment on ROA?
* What is the impact of Community Investment on ROE?
* What is the impact of Community Investment on Net Profit Margin?

## ***1.7 research objectives***

* To Analyze the impact of community investment on ROA
* To analyze the impact of community investment on ROE
* To analyze the impact of community investment on Net Profit Margin

## ***1.8 structure of the report***

The first chapter of this research will consider the research background, research rationale (what is the issue, why is an issue and why it is an issue now), research objectives and questions. Giving detailed insights on the chosen industries and countries.

In chapter two of this study, broad explanation of what corporate philanthropy is will be presented. As well as a critical evaluation and review of the chosen theories (Carroll’s, stakeholder, agency theory and the triple bottom line), an empirical study of past researches and a conceptual framework which supports the perspective of the research.

The third chapter of this study will be discussing on the methodology and design of the research. This includes the method of data collection, sampling and sampling technique that will be adopted. The fourth chapter is for analyzing the data collected and its findings. The concluding chapter provides a summary of the research with a conclusion and recommendation.

# 2. LITERATURE REVIEW

This section gives definitions by different authors on philanthropy and firm performance, the theories relating to philanthropic CSR will be discussed as well.

## 2.1 Definitions of key concepts

Corporate philanthropy has rapidly become a cultural heritage of many communities, and is driven by a complex individual and social dynamics. But it can also be affected by the public policy in both developing and donor countries (kathleen et al, 2010).

The earliest definition of philanthropy was by Carroll, (1979) he regarded it as a way organizations publicly exhibiting their corporate social responsibility. As cited in (Fioravante, 2009). Gan et al, (2006) concurred that philanthropy is the activity that connects a business sector of the social sector of the community. It gives corporations an opportunity to build an ethical and moral mantra within their organization. They referred it to as generosity of spirit. While, Fisman et al, (2002) defined philanthropy as the act whereby profit making organizations sharing profits or resources to non-profit making organizations or society. Through the likes of property, facilities and advertising support (Ray et al, 2002). Moreover, Pamala (2008). Refers to the term as improving peoples situation through charitable aids and donations, in other words the love of humankind (wiepking, 2008). Additionally, philanthropy as the giving of money or other resources which includes time, to help individuals, communities and other good causes (Bearman and Eikenberry, 2009).

The success of any firm is determined by its performance over a period of time. As cited in (Brito and Santos, 2012), according to Venkatraman and Ramanujan (1986), firm Performance refers to the subset of organizational efficiency and effectiveness that runs through the operational and financial outcome of the firm. Neely et al, (1995) defined firm performance as the act of measuring the action’s and effectiveness of a company. Lebas, (1995) sees firm's Performance as the transference of the real existence of overall performance in organized symbols that may be related and relayed beneath the same occasions (Al-Matari et al, 2014). While, Lebans and Euske, (2006) a set of financial and non-financial indicators which gives information on the level of achievement of a firm’s objectives and results is referred to as firm performance (gavrea et al, 2011).

Community Investment in this study refers to the involvement of Companies in Community partnership to contribute towards social issues in order to protect their corporate interest and improve their reputation in the society they reside in. These contributions are the likes of financial contribution, in-kind doantions, cash donations, contribution of time and skills (Reddy, et al., 2015)

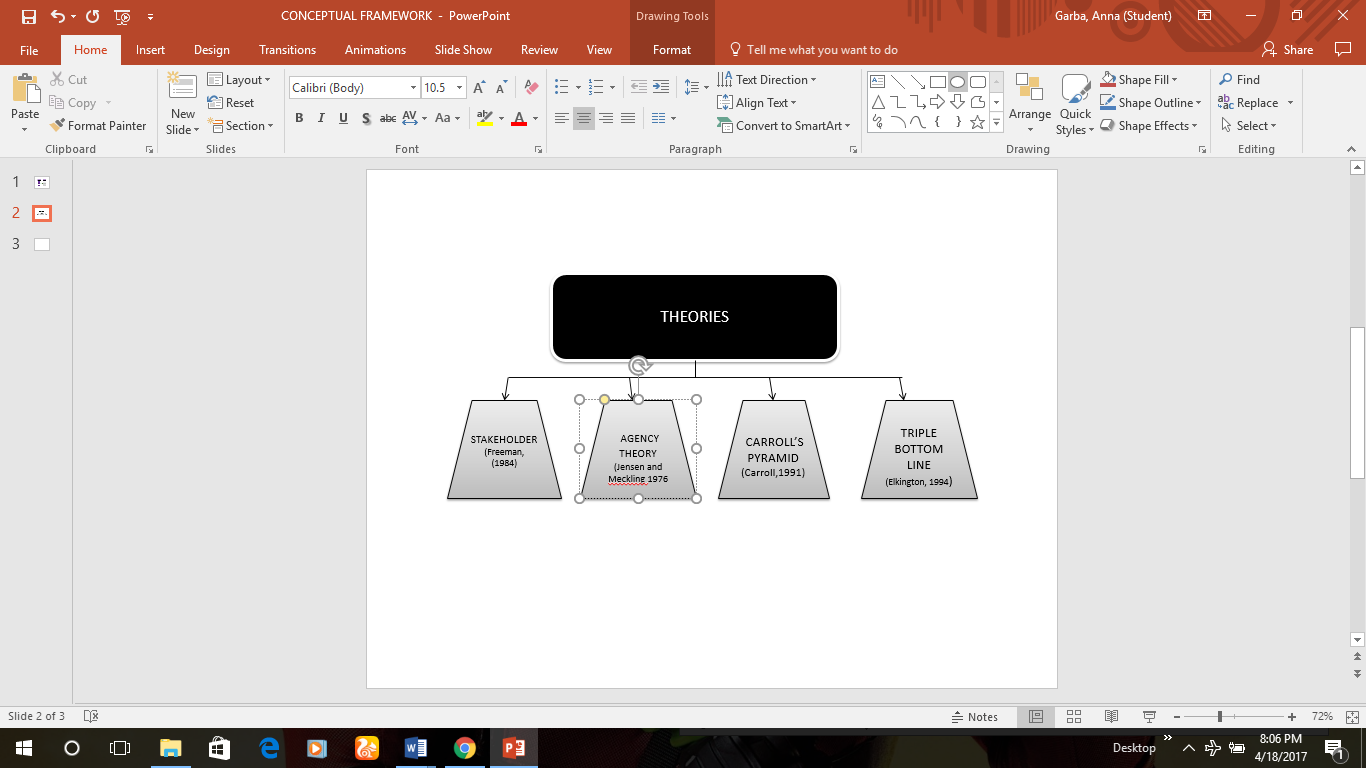
Return on Assets (ROA) indicates the how a company is profitable, relative to its total assets. ROA reveals how a management efficiently generates profit from its assets. This is calculated by dividing a company's annual profit or net income by its total assets. (heikal, Khaddafi and Ummah, 2014

Return on equity refers to the efficiency to which the shareholders’ investment is being utilized to generate profit. This serves as an indicator on whether the firm makes profits or just wasting the shareholders’ investment. (Kijewska, 2015)

Profit margin refers to the measurement of net income earned by each amount of sales generated by dividing the net income by the net sales of a company at a given time. (Holland, 1998)

## 2.2 CRITICAL REVIEW OF THEORIES

The chosen theories in this research are about to be critically evaluated and explained how it related to the corporate philanthropy.



*Figure 1: Theories*

### ***2.2.1 stakeholder theory***

In R. Edward Freeman’s book 1984, he mentioned the earliest definition as by Stanford Research Institute (1963), they referred to stakeholders as those groups who control the existence of a company, without their support, an organization cannot exist, which includes customers, suppliers, employees and community. Therefore, firms should not focus on shareholder interest only but also all stakeholders which included the community (Charles Fontaine, 2006).

Governments

Investors

Political Groups

Suppliers

FIRM

Customers

Trade Associations

Employees

Communities

*Figure 2: stakeholder model* *Source: (Freeman, 1984)*

Margolis et al,(2007) appreciated the theory as he states that companies extract and use resources from the community(customers), it is only ideal and a moral duty for them to give back to the society, cited in (Mukasa, et al., 2015). Ackoff (1974) supportably argued on stakeholder participation, that it is essential for system design, he pointed that if any is support and interaction from stakeholders it helps in resolving societal problems. (Elias, Cavana and Jackson, 2002). Objectively, Friedman in Friedman (2008) posits that when a management company is spending on another purpose other than maximizing profits, the money should be returned to investors.

The stakeholder theory has not been always accepted as Ansoff (1965) rejected the theory by saying that “responsibility and objective” are not in any way the same but they have been made one in the stakeholder theory. a contention made by Clarkson (1995) that making corporate philanthropy a business target is best embraced by changing elusive social and natural issues into substantial stakeholder interests. (silvia ayuso, 2007). Another criticism of the stakeholder approach lies in its moderately poor administrative practices. The stakeholder theory itself declares that stakeholders' advantages must be viewed and not corporate philanthropy, but rather remains very unclear with regards to help managers who solidly deal with stakeholders. But. Freeman unmistakably displayed his theory as an "inherently managerial" idea (Kakabadse, et al 2005).

Fair and moral as it might be, a stakeholder approach is in no way, shape or form a simple and straightforward stride to make, and rather constitutes a day by day challenge for manahers. Wood (1991) plainly proposes that stakeholders are probably going to build up an alternate comprehension of what corporate philanthropy implies, what they anticipate from the corporations in connection to corporate philanthropy and how they evaluate corporate social performance. To make an adjusted result worth the majority, if not all, of the stakeholder. Despite the conceivable contrasts with the value frameworks and ideological position of stakeholders, is a harsh but vital undertaking for managers. Referred to in (Kakabadse et al, 2005).

### **2.2.2 Agency Theory**

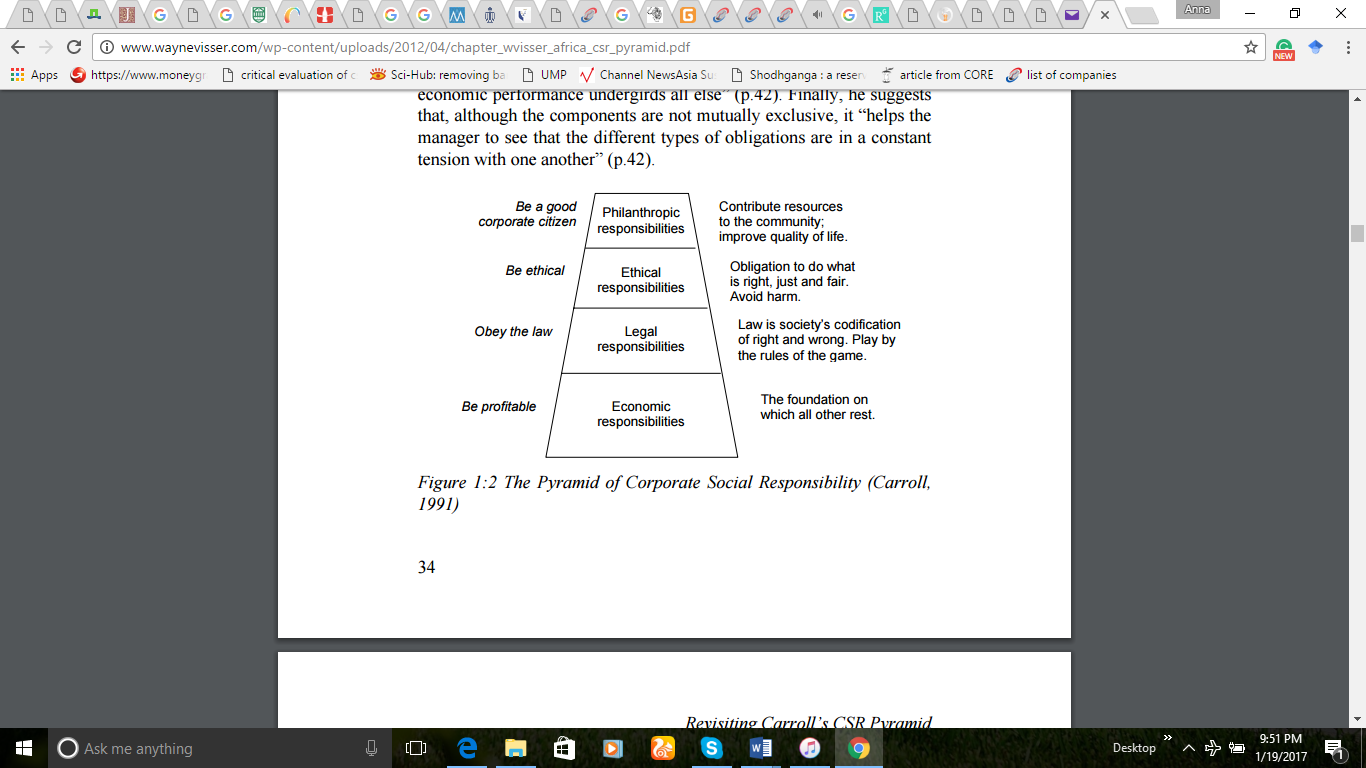
The Origin of Agency theory is reflected in the fact that there is no proper citation of it however. Jensen and Meckling (1976) is usually cited because of their influential contribution to the theory over the years. (Mitnick, 2006). Depending on Jensen and Meckling (1976) agency cost and conflicts of interest are inborn component of any principal-agent relation, a clear interpretation of their theory is that corporate giving vary inversely with the CEO ownership percentage cited in (Masulis & Reza, 2014).

Several authors raise arguments supporting the Agency theory. Ronald and Syed, (2014) concluded that is firm donations lead to an advance on the interest of CEO and that a misuse of the corporate resources will lead to a reduction on the firm’s performance, this means a rise in CEO ownership leads to an increase in firms corporate giving (Masulis & Reza, 2014). According to Carroll (1979), cited in (Jessica Footea, et al., 2010) posits that there is a intertwine between the economic and social interest of a firm, practicing corporate giving is in the best interest of the firm; when it comes to product safety both economic and social levels are involved. In addition, Brown et al., (2006) supported that through corporate giving, managers boost their public reputation and personal enhancement in their career. Cited in (Liang and Renneboog, 2017).

In light of criticism, (Koehn & Ueng, 2010) argued that corporations may use philanthropy to deviate the public about their financial results and goodwill when they are being asked to restate their suspected earnings. Similarly, Petrovits, (2006) firms may adopt corporate giving as a method of earning management, as corporate foundations are used by some firms as off-balance sheet reserves in (Liang and Renneboog, 2017). Perrow (1986) disregarded this theory for being extremely narrow and having less testable implications, that it only gives focus to one aspect as it neglects the full exploitation of its worker’s potential and rarely explains actual events. In (EISENHARDT, 1989).

### ***2.2.3 Carroll’s Theory***

Carroll (2000) states that corporate philanthropy entails actively engaging in activities or programs to improve human welfare or goodwill. Communities give regard to companies who give their money, facilities for humanitarian programs. (Visser, 2005)



*Figure 3: Carroll’s Pyramid of Corporate Social Responsibility*

(Wayne, 2005)

As per Wayne Visser (2005) who contended that Comparison of philanthropic CSR using Carroll's pyramid idea is not steady. As to his clarification of why CSR is portrayed as a hierarchy. Here and there; he proposes it is the way social responsibility has grown generally in different circumstances, other times he uses it to portray a request of reliance. In (pedersen et al.,2006). Dahl (1972) stated that every corporation should be regarded as a social enterprise. As their existence should be justified by their service to public or social purposes. Companies are no longer accountable to shareholders alone but to the community which they exist within as supported by Mcdonald and Puxty (1979) cited in (Crowther & Martinez, 2004)

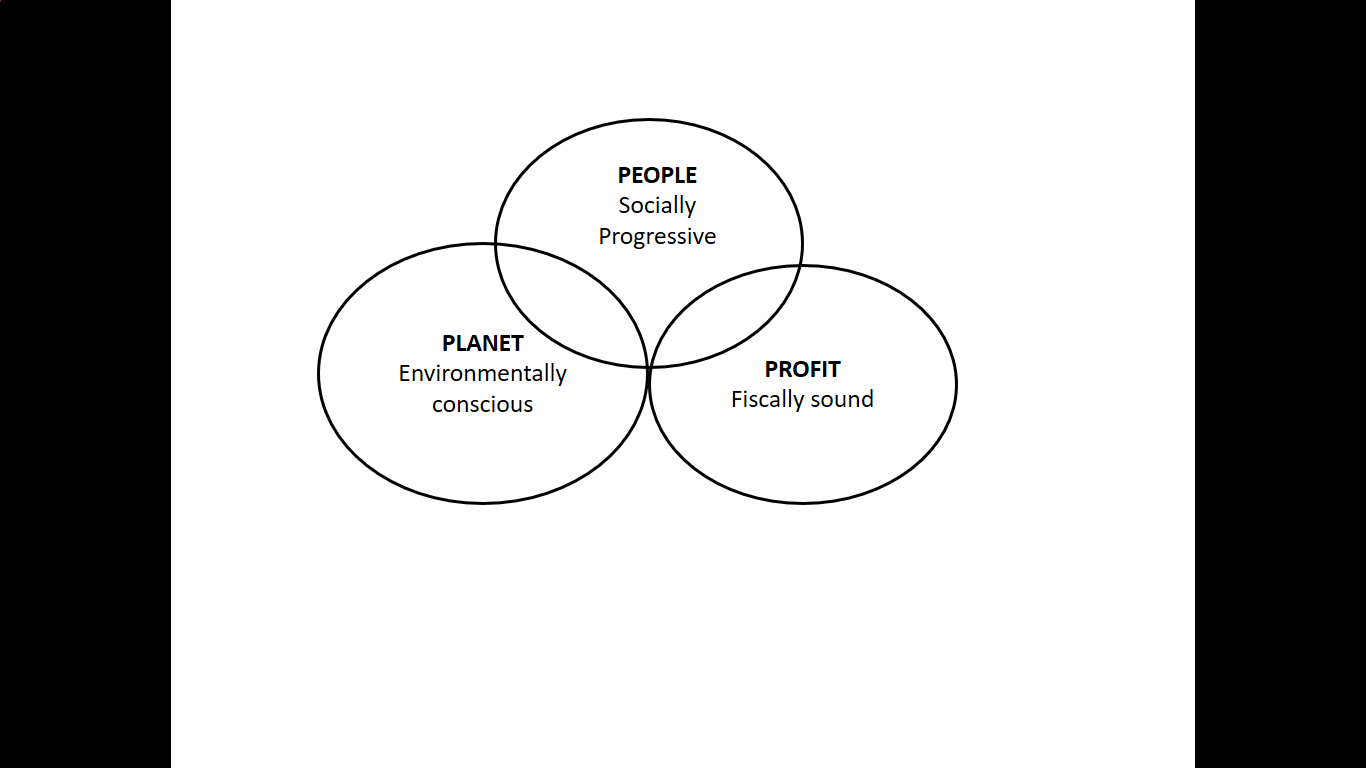
Another criticism by Wayne visser being the fact that, in his endeavor to conflate different ideas, for example, business ethics, corporate philanthropy and economic responsibility into the CSR pyramid, Carroll neglects to do justice to these contending topics referred to. In (Osadiya, 2016)

Marten and Crane (2004) trust that the primary impediment of the model is that it "doesn't sufficiently address the issue of what ought to happen when at least two responsibilities are in strife, for example, corporate philanthropy and economic obligation. Carroll report an "intriguing finding" in his unique observational review, in particular that "the economically oriented a firm is, the less focus it puts on ethical, legitimate, and philanthropic issue". In any case, he neglects to propose how to determine or defeat such clashes. (pedersen, huniche and rahbek, 2006). TBL way to deal with corporate philanthropy activities proposes that Carroll's pyramid has restricted instrumental esteem. (Kelabi, 2014).

Although, this criticism recommends confinement of his model, he himself has communicated and forewarned that; "No representation is impeccable, and the CSR pyramid is no exceptional case (Tilakasiri, 2012). Criticism of Carroll's model and Justification by the Proposed New Universal Model: Carroll advocated his hierarchy of responsibility as an order of reliance and his empirical evidence infers yet another method of reasoning, that it mirrors the relative perceived importance of responsibilities doled out by managers. Thus, the new model is not enduring with the restricted instrumental value as the proposed universal model fit for any condition at any given purpose of time. In this manner, Carroll model is aiming for universality. Yet it has not been appropriately tried in settings outside of America. (Nalband and Kelabi, 2014). Nonetheless, this study is concentrating on the philanthropic responsibility for Carroll's pyramid, which is those activities that society anticipate that an organization will be a decent corporate national (Barde, and Tela 2015). The carroll's theory is the benchmark for any exploration identified with corporate philanthropy.

### ***2.2.4 Triple Bottom Line***

John Elkington’s (1997) is the pioneer of the Triple Bottom Line, he suggested that economic, social and environmental issues should be treated together and this has been used by many companies as a framework over the past 15 years. (Dixon, 2014).



*Figure 4: Triple bottom line Source: (Elkington’s 1997)*

Along the line arguments have been raised regarding this theory. Ben (2012) says that the TBL fixed visual representation of TBL is misguided, that the attempt to simplify or engage in it creates confusion and misunderstanding that is not of benefit for future development. He further argues that one aspect of TBL that is important today, might not be of importance for the next day (Vivian, 2012). More so, Sridhar and Jones (2013) made their criticism on TBL saying that its measurement is complex. The objective and reliability of the results obtained from the corporate philanthropy measurement is doubtful. Therefore, more attention should be paid on whether the values are reliable rather than the ways it can be measured (Sridhar and Jones, 2012). Furthermore, according to Slaper and Hall (2011) the major weakness of TBL despite its relevance to accounting is that firms are unable to apply the monetary-based economic system. As it is impossible measure the benefits of philanthropic and environmental activities in monetary terms as there is with profit, it does not all companies to sum across all TBL (Akenbor, 2014). Its critics additionally address its legitimacy and practical value. One criticism towards the TBL on corporate philanthropy is that it's as inalienably misleading, due to its inability to convey its literal significance (Norman and MacDonald 2004).

Supporting contentions were performed on the idea of the Triple Bottom Lines. Mirinda (2016) expressed that organizations which depends on the creation of shoddy items produced using fossil derivatives is expanding the shortage of resources; in this way, utilizing the TBL approach, they will probably decrease the dangers by introducing a more economical alternatives, for example, corporate philanthropy. On the other hand, Willard (2012) called attention to TBL, that it helps organizations through corporate giving to a sustainable business from an industrial age business model, a few opportunities have been made for the organizations to create out new items and administrations and tap new market. In any case, Pava (2007) accordingly, contends that the TBL is used figuratively to challenge customary believes that corporate philanthropy can be surveyed or abridged by any single indicator, for example, net income; and that it fills in as a reminder that "corporate performance is multi-dimensional" referred to in (Dixon, 2014).

Triple Bottom Line is another excellent match for teaming up with this research conceptual framework. This model urges organizations to socially involve in societal welfare. (WHO, 2013)

## 2.3 Summary of Theories

|  |  |  |
| --- | --- | --- |
| ***Theory*** | ***Strength*** | ***Weakness*** |
| *Stakeholder Edward Freeman (1984)* | * *Helps in resolving societal problems (Ackoff 1974)* * *It is moral and ideal for companies to give back to society (Margolis et al,2007)* | * *Relatively poor managerial practicality* * *stakeholders’ interests must be considered and not corporate philanthropy. (Wood 1991)* |
| *Agency Jensen and Meckling (1976)* | * *corporate giving, managers boost their public reputation and a personal enhancement in their career. Cited in (Liang and Renneboog, 2017).* * *this means a rise in CEO ownership leads to an increase in firms corporate giving (Masulis & Reza, 2014)* | * *misuse of the corporate resources will lead to a reduction on the firm’s performance (Masulis & Reza, 2014)* * *corporations may use philanthropy to deviate the public from their financial results (Koehn & Ueng, 2010)* |
| *Carroll’s (1991)* | * *the theory helps managers to see the expected responsibilities from companies by the community. (Crowther & Martinez, 2004)* * *companies that fully engage in this, have a good public reputation (Nalband, 2014)* | * *model is striving for universality, but it has not been properly tested in contexts outside of America. (Nalband and Kelabi , 2014).* * *does not adequately address the problem of what should happen when two or more responsibilities are in conflict* |
| *Triple Bottom Line John Elkington’s (1997)* | * *Creates sustainable approach to diminish risks (Mirinda, 2016).* * *Creates new opportunities through corporate giving to craft out new services (Willard, 2012)* | * *It is complex and hard to measure (Slaper and Hall,2011).* * *Results are sometimes misleading and unrelaible (Sridhar and Jones, 2012)* |

*Table 2.1 summary of theories*

## **2.4 empirical studies on impact of corporate social responsibility on firm’s performance**

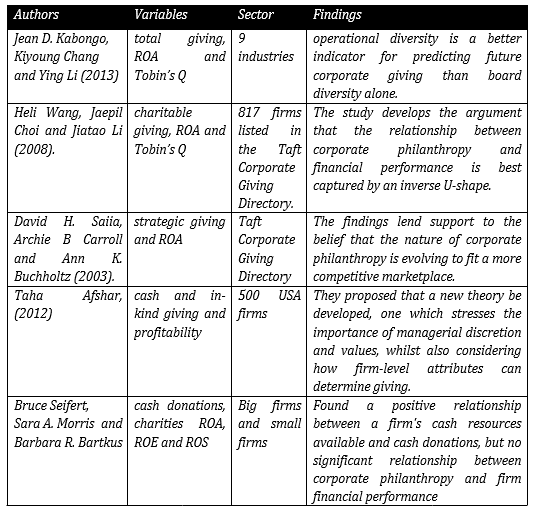
S. Zulfiqar (2016) conducted a research to find the link between corporate philanthropy and corporate financial performance he chooses 80 companies found in the Pakistani textile sector to investigate this, with a time range from 2009-2014 (6 years). He used donation as his gauge for corporate philanthropy (independent variable) and ROA, ROE as the dependent variable. He used panel data for his analysis, combining cross-sectional and longitudinal. The results indicated that there is a significant positive relationship with Return on Asset, while the Return on Equity revealed an insignificant result. These findings, can be considered as insufficient. Waddock and Graves (1997) research. They conducted their study using a total of 469 companies in 14 industries in the USA. Using the same variables with an addition of return on asset and found that corporate social performance has a positive relation with financial performance; they do not depend on each other, supported by (Cochran and Wood, 1984).

Too Little or Too, Much? Untangling the Relationship Between Corporate Philanthropy and Firm Financial Performance was a research carried out by Wang et al.. (2008), using a panel data set of 817 companies listed in Taft Corporate Giving Directory within the years of 1987-1999 (12years). Their independent variables were specific giving dollars, corporate direct gifts, non monetary gifts, matching gifts, and corporate sponsorships while ROA and Tobin’s Q were the independent variables used to measure financial performance. They said that corporate philanthropy and financial performance are best viewed by an inverse U-shape, they didn’t really come up with a specific result but they posit that the relationship between the two varies by level of dynamism in firm’s operational environmentT. However this research result is criticized as Afshar (2012) made a comparison research using a panel of 620 large firms in the UK for over 14 years and 500 firms in the US for over 12 yearS. They observed that there is no significance of corporate giving in strategic stakeholder managementt.

After the Sichuan Earthquake Zhang et al., (2009) made a study on Corporate Philanthropic Giving, Advertising intensity, and Industry Competition, using data on 685 Chinese firms to investigate their philanthropic response to the crisis. Using cash donations and in-kind donations as independent variables to measure corporate philanthropy and ROA, size, leverage, as the dependent variable, with a time span of May-June 2008. The use of correlation and regression analysis was applied. They found a insignificant negative impact of corporate giving on ROA. Leverage was found with a negative correlation with corporate giving, the firm size was positively related to donations. However, this research results wouldn’t be considered sufficient as they based their study on a short time span of one year. (Kabongo, et al., 2012) made their study over the years of 1991-2009 (18 years) to investigate “The Impact of Operational Diversity on Corporate Philanthropy: An Empirical Study of U.S. Companies” with an independent variable of total giving and dependent variable as Tobin’s Q and ROA. They found a positive significant on both ROA and Tobin’s Q. this resulted was consistent with results of (Brammer and Millington, 2004).

Kiran et al,. (2015) carried out research on corporate social responsibility and firm profitability: a case of oil and gas sector in Pakistan. Using philanthropic giving of the 10 selected companies as independent variables and dependent variables were Net Profit, total assets and net profit margin in a time span of 2006-2013 (8 years). Their data were analyzed using correlation and regression tests. The results revealed a positive correlation between the philanthropic giving and net profit, a negative correlation on total assets and an insignificant impact on profitability. Nevertheless, more companies could have been used for a more thorough result, a research conducted by Chai (2010) using Panel set data of 1.017 listed firms in Korea on Firm Ownership and Philanthropy with charitable donation as independent variable and financial performance as the independent. The results found a positive relationship between charitable donation and foreign ownership but no significant effect of it on financial performance.

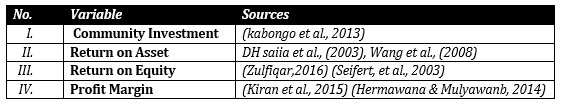
### 2.4.1 Past Researches done in USA

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*Table no. 2.2*

From the tables above, it is proved that many authors have carried out research on finding if corporate philanthropy impacts the performance of a firm by using various variables to analyze it. Even though this research is inspired from the past works, it aims to take a dimension not commonly used, that is taking a total giving of the selected firms yearly. Thus, using Community Investment as the independent variable and ROE, ROA and NPM as independent as summarized below;

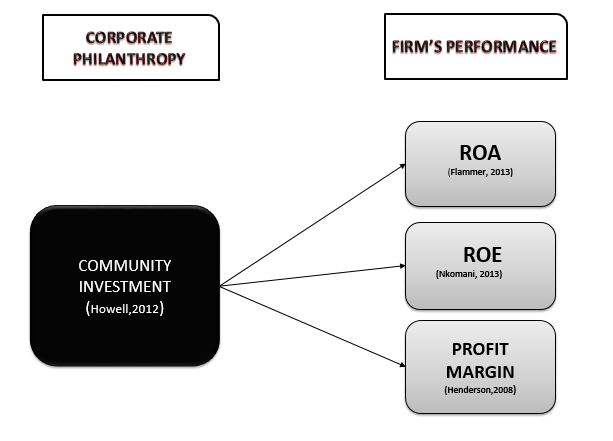
### 2.4.2 Summary of key variables

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*Table no. 2.3 key summary of variables*

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## 2.5 conceptual framework



***figure 3. conceptual framework***

### 2.5.1 Community Investment on ROA

According to Liang and Luc (2017) the level of community investment of a company is usually affected by peer pressure and public perception; however community investment doesn’t affect the firm’s performance significantly (Liang & Renneboog, 2017)

A firm’s performance and profitability are generally measured by using ROA (Belu & Manescu, 2013). Return on asset is used to determine if a company engaging in philanthropic and environmental activities goes through a negative impact on their profitability (Moon et al., 2014). However, a lot of previous researchers have used ROA when examining the impact of between corporate philanthropy and firm’s performance, a positive significance of philanthropic activities on ROA was revealed in a study by (Tang et al, 2012). (Nishitani, et al.,2011) Found a positive significant of ROA on firms performance. Moreover, (Porter & Kramer, 2002) argues the social and economic values are not conflicting priorities but connected integrally, they added that investing in the community is used as a medium for advertising, public relations and promoting a firm’s image. Return on asset of a firm is determined by the profitability of the firm which is heavily affected by environmental factors (Crook et al, 2011). Zulfiqar (2016) found a positively significant impact of Community investment and Return on Asset. Chai, (2010) Found a significant impact on community investment and supports the argument that corporate philanthropy is a discretionary and a strategic corporate spending that aim to generate goodwill and positive social image for the firm and an insurance-like protection for the firm’s relational assets and profitability.

**H1: There is postive significant impact between Community Investment and ROA**

### 2.5.2 Community Investment on ROE

Milton Friedman (1970) posits that the Corporate are only socially responsible to their shareholders by increasing profit which results in a higher return on equity. Johansson, et al (2015) ROE reveals to shareholders how viably their cash is utilized. With it, one can determine if a firm is a benefit maker or burns profit and administration's profit-earning effectiveness (KIJEWSKA, 2015). Return on Equity measures the return obtained on both preferred and common stockholders' interest in the monetary establishment every year. It determines the capacity of creating profits from each unit of shareholders' value. Return on equity measures an organization's painfulness by uncovering how much benefit an organization creates the cash shareholders have contributed. Porter and Kramer (2002) States that Friedman’s theory is right, in our world today majority of companies on community investment have become diffused and unfocused, they give for the sake of generating goodwill among customers, local communities and employee. Their contributions reflect personal values (Khan et al, 2016 as well Bradford and Fraser. (2008) started raising a significant negative impact on ROE. As ROE is a well-known and generally accepted measure when Paul (2005) stated an argument for a significant level of firm’s involvement in community investment but limiting it to only strategic interests it will lead to an increase in the firms return on equity (GODFREY, 2005). Zulfiqar (2016) however found an insignificant impact on community investment. Velasco (2013), revealed a significant negative impact of ROE and the corporate philanthropy.

**H2: There is negative significant impact between Community Investment and ROE**

### 2.5.3 Community Investment on Net Profit Margin

Net profit margin as stated by Querol-areola, (2017) reveals how effective the management in ensuring operating profitability in a company. This enables an investor to have a clear perspective on the core profitability of a company. When a net profit margin is on the high side, this indicates that the company’s operating expenses do not take the prospect of profit out of their revenue. Their observation revealed a positive significance of NPM. However, Iqbal, et al., (2014) using the donation as a proxy for corporate philanthropy in Pakistan banking sector, found a positive impact highlighting that as banks give a good response to their society, their net profit increases. Contrary studies have been conducted by Aupperle, et al., (1985) on the empirical examination of corporate social responsibility and profitability, they found a negative impact. (A, et al., 2016) found that expenditure on environmental and social activities has no impact on NPM. Kusumaningrum (2012) also found that no impact exists between net profit margin and expenditure on community. Implying that profit may not be affected as the shareholders do not appreciate philanthropic activities. Hence, sales do not increase or decrease and expected profit remains the same.

H3: **There is negative significant impact between community investment and NPM**

# 3.0 METHODOLOGY

## 3.1 Research philosophy

According to Mark Saunders et al (2009), Philosophy in a research context refers to advancement of information and the essence of that knowledge. In this manner, it is said to be the procedure of creating information in a specific way and selected an area. Cited in (Sinnott, 2008). It is therefore important for any researcher to have a philosophical alignment at the initial stage of the research. Remenyi et al (1998), said it is through a wisely selected philosophical technique that the researcher will persuade the studies target audience by addressing philosophically the questions concerning the why, what and the way to research. Consequently, this could show that the research undertaken has made a legitimate contribution to further information within the preferred area of the research. Cited (Sinnott, 2008). There are types of four (4) of research of philosophies, pragmatism, positivism, realism, interpretivism (interpretivist). It should be noted that positivism was adopted for this study, which limits the research to data collection and interpretation of it. The research findings are observable and quantifiable. (Wyk, 2012). Leading to quantitative research, it is the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect (Hancock, Ockleford and Windridge , 2009). Positivism-quantitative research was adopted here as data will be generated from the companies annual reports, CSR and sustainability reports. It employs empirical methods and evaluation and uses measurable data to formulate facts and uncover patterns in this study (Wyk, 2012). Realism and pragmatism falls under qualitative research which could not be used in this study but it has no objectively verifiable result, skillful requirement for interviewers time consuming, and requires intensive category process. (Choy, 2014)

## 3.2 Research design & strategy

Leedy and Ormrod (2001) Research is at times mistaken for gathering information, documenting facts, and rummaging for information. Research is the process of collecting, analyzing, and interpreting data to understand a phenomenon (Williams, 2007). There are three types of research design; exploratory, explanatory and descriptive research.

This research however is based on descriptive explanatory type of research, as it goes hand in hand. The two research designs aims to explain the relationship between the independent and dependent variables by carrying out analysis and connecting it in responding to the research questions, which make it explanatory (Johnson and Christensen, 2008). While the main advantage of using a descriptive design is that it allows the use of any research strategy for coming up with a solution to the research questions or problems. (Vaus, 2001). Hence, it is of benefit to this research as it will help in shedding more light on how the independent variable(community investment) impacts or affects the firms performance. This research doesn’t fall under the exploratory because they have been several studies that have been already conducted in this field (Degu and Yigzaw , 2006).

Therefore, exploratory design cannot be used in this research as it is used when there is little or no research done in a particular field of study in CSR has got many research works done on it. (Kothari, 2004).

### 3.2.2 Time series

Nevertheless, cross-sectional study helps in revealing the relation or non relationship among variables but the biggest disadvantage is the fact that it says very little about the processes and changes through time (Kozloff, 2012). Hence, this research adopts the longitudinal type of design, as we are considering the manufacturing companies over a period of five years each, by taking the independent variables from their CSR and Sustainability reports and the dependent variables from the annual reports. They are calculated to find out the relationship between them over these periods. (Schaie, 1997)

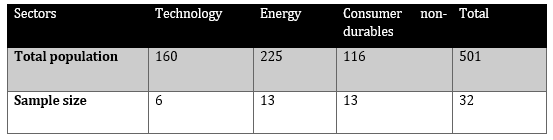
## 3.3 Data collection method

Data-collection strategies enable a methodically gathering of data about an object of study (individuals, items, phenomena) and the settings in which they happen (Chaleunvong, 2009) There are two sorts of data collection which are primary and secondary data. Secondary data are those which have as of now been gathered by somebody and have gone through the measure machines. (Hox and Boeije, 2005).

The data collection adopted in this research is secondary data. Although it's been criticized for totally unreliable, as organizations can manipulate or reorganize the data to meet a purpose that is unknown to others (Tasić and Feruh , 2012). This research will only refer to the selected company’s annual reports and CSR and sustainability reports for needed informations, hence, primary data could not be used for this study as it involves collecting data for the first time and are always given in the form of raw materials and originals in character which is time consuming. (Vaus, 2001)

## 3.4 Population

For this research, we are taking into consideration the U.S manufacturing companies listed in NYSE and we further split it into 3 sub sectors as showed in the table below.

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*Table 3: Division of USA manufacturing Industry*

Furthermore, this research started off using 50 listed manufacturing companies and their 5 years’ reports. But as we got further into the looking for CSR and sustainability reports, our list dropped to 36 as stated above, hence bringing it down to 180 observations of firm-years. This is due to lack of availability of data and time constraint, but it is still considered as eligible to find out the impact of the CSR on firm’s performance (Flammer, 2013).

## 3.5 sampling size and method

This simply refers to selecting of the suitatable sample population to be used in a given research (McMillan, 1996). According to Barreiro and Albandoz (2001) the three sampling methods are purposive, probability and no-rule sampling which is also having different sub-types.

However, this is a non-probability sampling technique of convenience. This is referred to as researching the population that could be easily accessible to the researcher (Etikan, et al., 2016), while Quota sampling involves gathering representative data for a group (Rada & Martín, 2014). The convenience technique applies when we initially looked for the CSR reports of 50 companies but due to lack of accessibility and availability of data it leveled down to 36 manufacturing companies. Hence this a combinatory of Convenience-Quota sampling.

Moreover, probability sampling couldn’t be used in this study as it will mean each sample having the same chance of being chosen, while the no rule technique takes a sample with no-rule and it is needed to be in a homogenous kind of population and no selection bias were in (Barreiro and Albandoz, 2001).

## 3.4 Accessibility

Accessibility this is viewed as the availability of statistical information for research on some system or entity and includes the ease of collecting the information required (OECD, 2007). This research being based on secondary data will extract data from the published annual reports, CSR and sustainability of the chosen companies which are made available on their official websites. Which is verified by the US Security and Exchange Commission (SEC).

### 3.4.1 Ethical consideration

An action may be legal but unethical or illegal but ethical. One may also define ethics as a method, procedure, or perspective for deciding how to act and for analyzing complex problems and issues (Fouka and Mantzorou, 2015). As far as this research is concerned, the only possible issues will be copyrights or illegal access of documents which by the way the informations are obtained and accessed through legal way as it is a secondary data depending on the reports from the companies websites.

## 3.6 **Data analysis plan**

According to Marshal and Rossman (1999:150) the process of applying a statistical or logical method to explain and demonstrate data to ensure it is accurate is known as data analysis. Hence the evaluation and recapping of data to provide it with meaning. (Vosloo, 2014). The three major methods of data analysis are about to be briefly explained below.

### 3.6.1 Descriptive statistic

Seema (2011) defines it as the presentation of numerical facts, or data, in either tables or graphs form, and the methodology of analyzing the data in a clear and understandable way (jaggi, 2011). William (2003) sees it as the transforming of raw data into a form easy to comprehend and the manipulation of the data to generate a descriptive information. (Zikmund, 2003)

### 3.6.2 Correlation statistic

As indicated by Boris (2010) Correlation coefficients (signified r) are measurements that evaluate the relation amongst X and Y in without unit-free terms, that is it analyses to check if there is a relationship between two given variables. (Mirkin, 2010) the values need to be within the range of -1 to +1, as -1 represents a negative correlation and +1 denotes a positive relationship while 0 signifies no relationship. (Filzmoser and Hron, 2008).

### 3.6.3 Regression analysis

Dan and Sherlock (2008) Regression is a statistical method to decide the straight relationship between two or more variables. Regression is essentially utilized for forecasting and causal derivation. Regression in this way demonstrates to us how variety in one variable co-happens with variety in another (Dan and Sherlock, 2008). Recognize that regression investigation is in a general sense not the same as finding out the correlation among various variables. (Campbell and Campbell, 2008). Correlation decides the quality of the relationship between variables, while regression endeavors to depict that relationship between these variables in more detail. (Kempthorne, 2013)

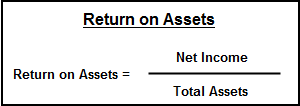
### 3.6.4 E-view

E-Views is the ideal package for quickly and efficiently managing data, performing econometric and statistical analysis, generating forecasts or model simulations, and producing high quality graphs and tables for publication or inclusion in other application (Schwert, 2010). We found this type of data analysis to be the most appropriate for this research. SPSS however wasn’t suitable for this study because when it comes to time series e-views is the best (Shumway & Stoffer, 2016)

## 3.7 Empirical formulae

### 3.7.1 Return On Assets (ROA):

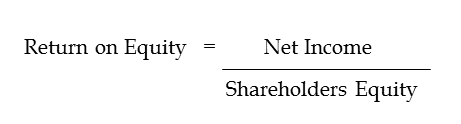
Return on Assets (ROA) indicates the how a company is profitable, relative to its total assets. ROA shows how a management efficiently generates profit from its assets. This is calculated by dividing a company's annual profit or net income by its total assets. (heikal, Khaddafi and Ummah, 2014).



The above formula has been used over the years by other researchers to calculate the profitability of the company. It indicates what the company can do with what they have.

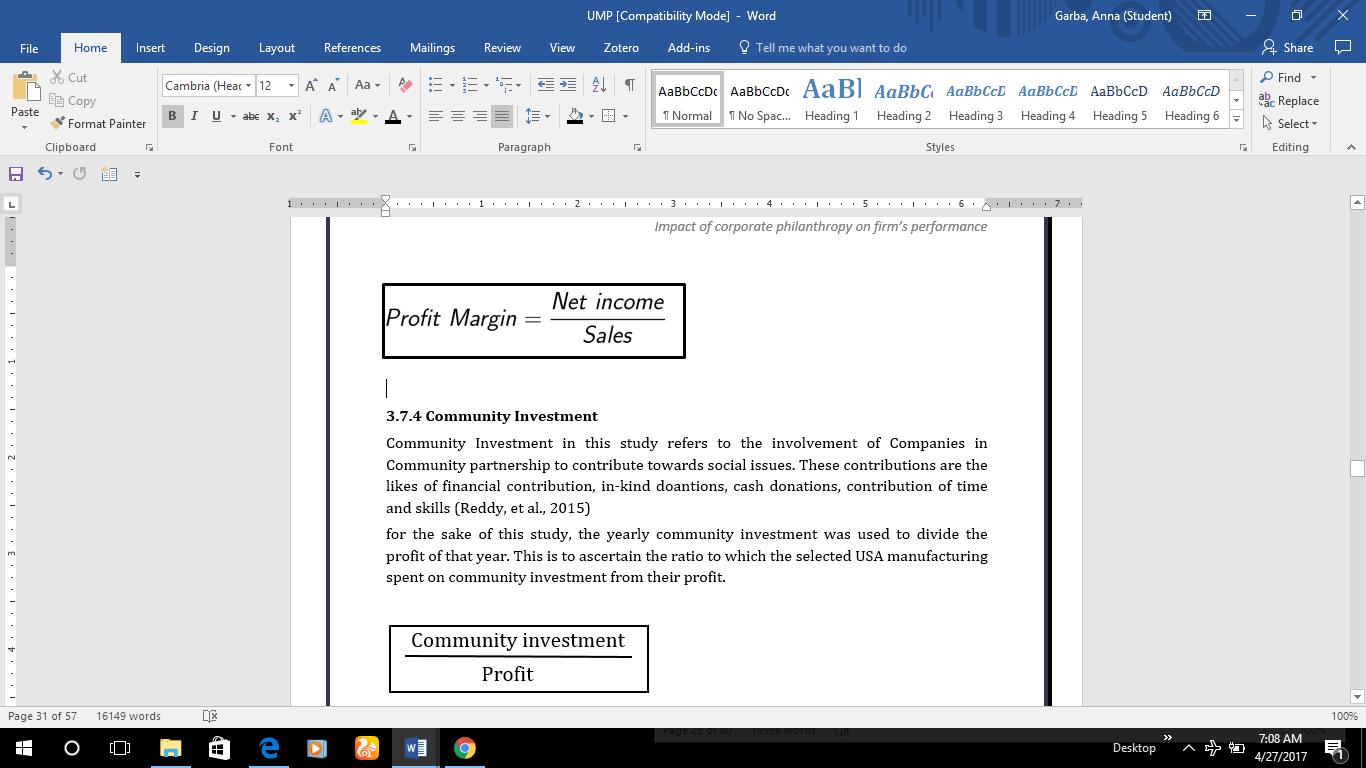
### 3.7.2 Return On Equity (ROE):

Return on equity refers to the efficiency to which the shareholders’ investment is being utilized to generate profit. This serves as an indicator on whether the firm makes profits or just wasting the shareholders’ investment. (Kijewska, 2015)



### 3.7.3 Profit Margin

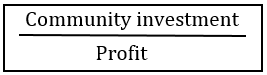
Profit Margin refers to the measurement of net income earned by each amount of sales generated by dividing the net income by the net sales of a company at a given time. (Holland, 1998)



### 3.7.4 Community Investment

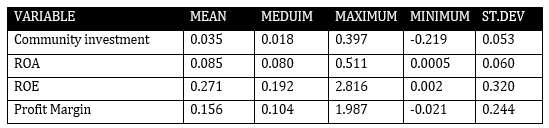
Community Investment in this study refers to the involvement of Companies in Community partnership to contribute towards social issues. These contributions are the likes of financial contribution, in-kind donations, cash donations, contribution of time and skills (Reddy, et al., 2015)

For the sake of this study, the yearly community investment was used to divide the profit of that year. This is to determine the ratio to which the selected USA manufacturing spent on community investment from their profit.



# **4. DATA ANALYSIS AND** FINDINGS

## 4.1 Descriptive Analysis

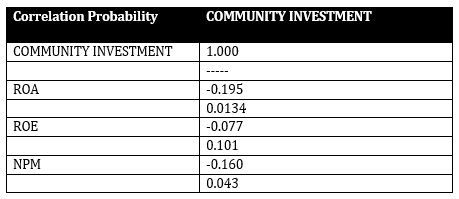
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*Table 4.1 descriptive analysis*

Community Investment in this study which is the sole independent variable refers to the total donations (cash and in-kind), contributions and charitable acts the companies have engaged in within the chosen time span (Howell, 2012). In accordance to table 4.1, the average mean for Community Investment being the independent variable is 0.035 and the standard deviation (which indicates how spread out the data are from the mean (Al-Saleh, 2009-RRB- is 0.053. This means that 32 selected manufacturing companies selected in the NYSE spent 3.5% of their generated net income on corporate community investment in the time span of 5 (five) years.

Furthermore, Return on Asset has a lowest mean among the dependent variables of 0.085 and lowest standard deviation of 0.060, This means that the selected NYSE companies employed 0.4% of their total asset to generate profit within 2011-2015 (Kabajeh, et al., 2012) Return on equity which as the highest average mean of 0.271 and a standard deviation of 0.320. This implies that US manufacturing companies used 27% of the shareholders’ investment to generate profits within the selected life span. Lastly, Profit margin indicates 0.156 of average mean and 0.244 of standard deviation, which means that the Companies made 15.6% of net income for every revenue overtime. (Badia, et al., 2007)

## 4.2 Correlation

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*Table no 4.2 correlation analysis*

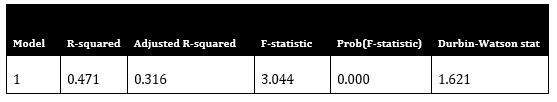
According to table, no 4.2 community investment has a negative but significant relationship with ROA. This relationship however is weak as it revealed a value of -0.195 and a significance of 0.0134. Hence, community investment has a significant negative relationship with ROA. As supported by findings from (Kiran, et al., 2015), (Velasco, 2013) and Friedman (1962) theory is against this result as it considers socially responsible practices as unnecessary.

Secondly for ROE on community investment the beta coefficient found a negative value of -0.077 which is considered weak as well and an insignificant value of 0.101. These results however, doesn’t support the stakeholder theory by Freeman (1984), as it asserts managers to satisfy the community who have an influence on the outcome of firms, agency theory by Jensen and Meckling, (1976) contrarily supports this finding as its advices the managers to focus more on the shareholders best-interest cited in (Nasieku, et al., 2014). However, (Brammer & Millington, 2004) stated that community involvement may sometimes be influenced by the preferences of societal stakeholder.

Lastly the community investment correlation on net profit margin uncovered a negative value of -0.160 and a significant value of 0.043. This is meant there is a weak negative significant relationship between community investment and NPM. (Hermawana & Mulyawan, 2014) result suggested that not all profitability ratio has a significant correlation with corporate philanthropy. Kiran et al, (2015) found a positive correlation of corporate spending on NPM. However, (querol-areola, 2017) they suggested that regardless of the company’s profitability they are encouraged to perform well in their social and environmental activities.

## 4.3 Regression

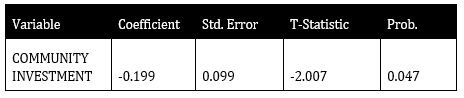
MODEL 1

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*Table 4.3*

In accordance to model 1, the value of R squared (which indicates the coefficient of determination) is 0.471 which shows that 47% of ROA the dependent variable can be predicted by community investment the independent variable and the Adjusted R square is (>0.6= good fit) 0.316 which indicates that this model is not a good fit for this research as the value is less than 60%. (Allison, 2014)

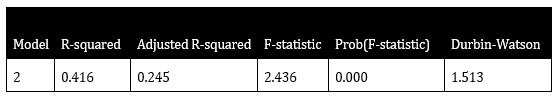
Furthermore, a value of 0.000 was attained on the prob (F-statistic) (<0.05 significance level) which reflects a significant impact between the independent and dependent variables as it is lower for 0.05 (Blackwell, 2008). Whilst, the durbin- Watson (1.5-2.5= no autocorrelation) obtained a value of 1.621 which demonstrates that there is no-autocorrelation among the selected manufacturing sectors within the life span of five (5) years. (Kiran, et al., 2015)



Dependent variable: ROA  *Table 4.3.1*

In accordance with the above table, value of community investment coefficient is -0.199 with a significant value of 0.000 as it is a lower of 0.05. Therefore, community investment is said to have a significant negative impact on return on assets of the chosen manufacturing companies in the US. Contradicted by Zulfiqar (2016) found a positive impact, it is further supported by Hirigoyen and Poulain-Rehm, (2015) and Rapti and Medda (2012) accounted for in (Fabac, et al., 2016).

MODEL 2

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*Table 4.4*

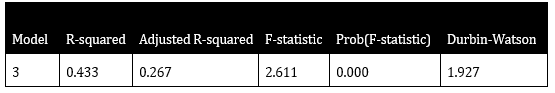
According to model 2, the R square shows a value of 0.416 which means that a solid 41.6% which means ROE predicted by the independent variable. Similarly, adjusted R square of 0.245 is not a good fit model for this research, which is lower at 60%. F statistics show a 24% impact between dependent and independent variable. The model further shows a significant Prob (F-statistic) of 0.000 lower of 0.05. However, the Durbin- Watson shows a value of 1.513 and it reflects that model two has no auto-correlation which means the selected companies are affected by each other. (Ofori, et al., 2014)



Dependent variable: ROE *Table 4.4.1*

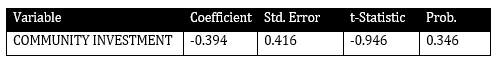
According to the above table, 4.4.1 the coefficient value of Community Investment on ROE is -0.740 with an insignificant value of 0.184 as it is higher of 0.05. Thus, Community Investment is said to have a insignificant negative impact on return on equity of selected firms in the NYSE. A contrary result of insignificant relationship on ROE was found by (ZULFIQAR, 2016), (Ofori, et al., 2014) and (Pan, et al., 2014)

MODEL 3

**

*Table 4.5*

Regression results in table 4.5 show a 0.433 of R-squared in NPM which means 43% (which is lower than 65% the determining factor) can be predicted. A good fit of adjusted R squared is valued from =>0.6, in this study however it revealed 0.267 which means a that is not a good fit. F-statistic of 2.611. The Prob (F-statistic) of 0.00 which means there is a significant of NPM. Lastly, Durbin- Watson which its autocorrelation determinant ranges from 1.5-2.5, uncovered a 1.927 which is there is no autocorrelation.



*Table 4.5.1*

In accordance to table 4.5.1, the coefficient value of NPM is negative -0.394 and insignificant value of 0.346. This means that community investment in the selected US companies within the time span has a insignificant negative impact on NPM, it is irrelevant.

## 4.4 Discussion of finding

### 4.4.1 Community Investment on ROA

Return on asset being one of the dependent variables used in this research, is a financial ratio that reflects to what extent firms are efficiently managing their assets to their generated income. (ZULFIQAR, 2016) . Table 4.3.1 community investment showed a significant negative impact on return on asset. This means that the more the selected US manufacturing companies within the chosen time span. (KIJEWSKA, 2015). Waddock and Graves (1997) also argued that there is a simultaneous impact of community investment on the firm’s performance. Similarly, as per the result in table

In todays’ business environment, corporate investment is building up popularity and significance worldwide. Although, investing in the society increases the expense of a company, it is worthwhile as it not only gives a good reputation to the company but also beneficial for the long term (Javed, et al., 2013). As found by (Sandoval, 2016), In 2015 the US experienced the biggest growth in donation rising from 17.4% to $15.8 billion. This was marked as the best societal giving this was due to the humanitarian disasters occurring in the likes of Nepal earthquake, the Syrian-refugee crisis etc. Konar and Cohen (2001) supported that firms involved in community investment have a negative significant impact on their profitability, contrarily from the good management theory (1997) which states that a giving to the society should come first as it will aid in increasing the firm’s profitability further support from stakeholder theory (Freeman, 1984) also provides support for corporations to act sociably. Cited in (Oyenje, 2012). The manufacturing companies in the have been going through a crisis, as their competitors are relentless. In other for the manufacturing companies to survive in the industry, it was necessary for them to make community investment one of their priorities and creates a “good image” for themselves despite their challenges (Statistics, 2016). In this situation, good management theory (1997) is applied, as stated earlier it posits that corporations should put philanthropic activities first which will in turn lead to an easy returnNs. (Klassen & McLaughlin, 1996) supports this from their research concluding that environmental management plays a pretty good role in improving firm’s profitability. However, it should be noted that the US manufacturing companies in this study have experienced a decline in their profitability through community investment to the society.

### 4.4.2 Community Investment on ROE

As earlier seen in table 4.4.1 two of the independent variable community investment has a negative insignificance on the dependent variable (Return on Equity). This illustrates that the spending’s on community investment by US manufacturing companies has no statistical impact on the shareholder’s wealth.

However, Giving USA (a forum for giving in the US) reported on their community of Investment charitable giving of $373.3 billion and Education growth from 8.8% reaching $57.5 billion in the year 2015 (Sandoval, 2016). Unlike this research result from the selected US manufacturing companies, they haven’t even much seriousness on giving towards. Takin initiative into these independent variables will without doubt give a good reputation for the firms. But the fact that doing that will add to the expenses of the firms, it should be prevented. The slack resource theory (1997) however states that corporations should focus more on making profits and then give to the community from it, accounted in (OYENJE, 2012). Notwithstanding, the US manufacturing industries have been facing a massive decline in previous years (Gross, 2016). A lot of the factories have been shut down leading to a high increase in unemployment rate and more competition from their foreign competitors (Statistics, 2016), hence the US manufacturing has a more disorienting issue to contend with rather than focusing on giving into community which will be another unwanted expense. Therefore, Community investment did not show any significant impact on shareholder’s equity. However, the insignificance of community investment on ROE indicated that the return on equity holders is not statistically dependent on community investment, this is due to the companies’ capacity and profitability to pay their shareholders (zulfiquar, 2016).

### 4.4.3 Community investment on Net Profit Margin

From table 4.5.1 community investment was found to have a negative -0.394 insignificance of 3.46 on net profit margin. This lack of statistical significance on community investment indicates that community investment among the Companies adds no value to their revenues. Therefore, companies invest in the community for a good reputable image and moral obligations.

The NPM is the ratio that measures the company’s operating profitability as a percentage of its total revenue (Burja, 2011). Profit margin indicates that operating expenses do not take the profit prospect out of the revenue, it is a good indicator of resources available for future philanthropy funding needs. (Bhutta & Hasan, 2013). According to (Eccles, et al., 2007) a profitable situation can be sustained when management decided to spend subsequently on reputation-enhancing and therefore sales increasing activities. This statement however is considered void in this study. As there was no statistical significance of spending towards community on their revenue over the chosen period. Notwithstanding, some researchers such as Igbal et al., (2014) found a significant positive impact of corporate giving to NPM. They stated that has the companies invest in society their net profit increases. While this study got a supporting finding from Kusumaningrum, (2012) philanthropic activities are not appreciated by shareholders therefore the profit may not be affected. Hence, expected profit is the same as revenue neither decreases nor increases as a result of community investment.

## Summary Result of Hypothesis Tested

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Hypothesis** | **Coefficient** | **Significant level (*<=0.05)*** | **result** | **Explanation** |
| H1: community investment has a positive significant impact on the ROA. | -0.194 | 0.047 | Rejected | The probability value is 0.047 which is lower than the significant level of 0.05. therefore, this implies that community investment is significant with the companies Return on Asset. |
| H2: community investment has a negative significant impact on ROE | -0.740 | 0.184 | Rejected | The probability value is 0.184 which is higher than the significant level of 0.05. hence, community investment is not significant with return on equity. |
| H3: community investment has a negative significant impact on NPM | -0.344 | 0.346 | Rejected | The probability value is 0.346 which is higher than the significant level of 0.05. hence, community investment is not significant with net profit margin |

# 5. conclusion and Recommendation

## 5.1 conclusion

The purpose of this was to examine the impact of corporate philanthropy on firm’s performance of the 32 selected companies listed manufacturing companies in NYSE. 3 (three) sub sectors were technology, energy, consumer non-durables. Community Investment was the independent variable selected for this study; whilst Return on Asset (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) as the dependent variables to measure firm’s performance. The Regression analysis method was used to measure the Variables using the E-views time series to analyze Regression, correlation and descriptive statistics which was used in this study. In concluding this research, the earlier stated research objectives will be discussed to examine the extent to which the purpose of the research was attained.

Objective 1: to examine the impact of community investment on ROA

As per the result, 2.73% in the descriptive analysis implied the amount expended on community investment from the generated revenue of the selected NYSE companies for the chosen time frame. Furthermore, according to the regression analysis the coefficient value came to negative of -0.194 with a significant value of 0.047 on ROA. There is a significant negative impact of community investment on ROA. (Walley and Whitehead, 1994). This however, as earlier stated revealed the same result as correlation statistics found ROA with a significant negative relationship.

S. Zulfiqar (2016) however found a significant positive impact on ROA. Even though, giving through community investment is an additional expense the selected NYSE manufacturing companies. They took the initiative to give anyway. As this will give the firms a good public image and might as well improve their profitability. Therefore, in overall community investment found a significant negative impact on the selected sample size. (Qin, et al., 2014). However, (FISMAN, et al., 2002) empirical test showed that corporate philanthropy and companies’ profits are only related to the industries with high competition and high advertising intensity. According to (Shapira, 2012), an indicator for doing good is by doing well, that companies who gain more profit can afford to sacrifice more of the profit into public interests. It is however concluded that not all companies that do well are necessarily doing good. The significant negative impact on ROA found in this study, means that as companies spend on community investment their profitability declines. This is not a convenient fit for the companies but it’s a necessary act also for tax savings.

***Objective 2: to examine the impact of community investment on ROE***

From the foregoing aspect of this research, it is noted from the regression analysis that the manufacturing companies in US spent 2.49% of their generated revenue on community investment. The regression analysis indicates the coefficient value for community investment on ROE was negative -0.740 with an insignificant value of 0.184 this paper concluded that there is a insignificant negative impact of community investment on ROE on the regression analyses (Smith, 2012). Similarly, correlation statistics in this study revealed a negative insignificant relationship. S. Zulfiqar (2016) ROE was found with a negative significant further support was found from Waddock and Graves (2012) with a insignificant negative impact on both ROE. Therefore, giving towards community investment for these companies is not as important as it is insignificant.

However, the stakeholder theory (1988) regards the community and shareholders as stakeholders that the company is required to satisfy, Friedman (1970) views community investment as an irrelevant activity which can only restrain the shareholder’s wealth.

***Objective 3: to examine the impact of community investment on NPM***

As for community investment, the descriptive analysis revealed that 15% of the companies generated revenue was assigned to community investment with the time span. The regression analysis was a coefficient value for community investment in NPM is -0.344 and the insignificance was 0.346. There is a insignificant negative impact of community investment in NPM. However, the correlation analyses revealed a significant negative relationship in this study.

The results show that investing in the community has no significant influence on firm’s performance. Supporting result was discovered from Agbiogwu et al., (2016) and Kusumaningrum, (2012) who found a negative impact of corporate philanthropies on the NPM. This means that for the selected US manufacturing companies chose for this study. Community investment revealed no effect whatsoever on their revenues. Iqbal et al., (2014) however, suggested that as companies give more on community investment, their net profit will be boosted.

## 5.2 Recommendation

This is regarded towards future researchers to investigate on more dependent variables such as Return on Sales, and Earning per share which also could be used to gauge the impact of philanthropy but were not regarded as in this study. As well Independent variables like employee volunteering, education, donation and charity can be used. Moreover, additional sample size should be regarded as get a more sufficient and effective data and results. Further, future researcher could ask more questions, like why the community investment had no significant influence on ROE and Profit Margin. Lastly, future research will be very beneficial if the study takes on a different sector other than manufacturing and a comparison study between a developing or developed countries. Mangers are advised to involve more on corporate philanthropy, spend more money in societal activities and present a good CSR and sustainability reports as it will give them a fair image and reputation which will boost consumers demand towards them and enhance tax savings.

## 5.3 Limitation

This research limited itself using only Community Investment as an independent. This combines a total of what the companies gave out to the society as corporate philanthropy. Furthermore, only 32 companies in the NYSE and 5 sub-sectors of manufacturing industries were taken into consideration. Whereas there is a total population of 502 companies. This however happened because of Time Constraint and along the line some companies had to be removed as they were not compatible (due to loss or high profit) with other companies to give a reliable result. Additionally, some companies had only started reporting their CSR and sustainability reports 2 or 3 years ago which wouldn’t be considered in this study. Hence, making it difficult to obtain companies that would match this research with the chosen time span.

## 5.4 Future Research Direction

This research was based on manufacturing companies in the NYSE. Future researchers can consider more sectors and a different stock exchange such as NASDAQ; this will enhance a clearer vision of how corporate philanthropy is affected in different sectors. However, Future Researchers can segregate the independent variable community investment into charity, donation and education to find out the exact amounts company allocated in each of those aspects that can traverse the whole corporate philanthropy concept. This will help with a comparison of companies spending on the community from earlier years to recent times, giving a significant view of what companies prioritize overtime. Also, comparison study can be done on developing or developed countries to give an interesting view of corporate philanthropy.

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