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COMPANY CHARITABLE GIVING: PRACTICE & DISCLOSURE

Introduction

This article reports on the progress of a research project being conducted into the practice and disclosure of corporate giving. To date, there have been few studies of this field in the U.K. Shenfield⁽¹⁾ outlined the contemporary legal and fiscal framework and reported on a number of case studies, while other work^(2,3), promoted by the Charities Aid Foundation, has focused on corporate funding of the arts. The project described here is concerned with contributions in general rather than just support for the arts.

Shenfield's monograph was written when the Companies Act, 1967, had just come into effect. By Section 19 of the Act, if a company's payments for political and charitable purposes, taken together, exceed £200 in a financial year, the amount given for both purposes must be disclosed in the directors' report which accompanies the annual accounts. To many people this legal requirement regarding charitable donations seems rather trivial. The aim of the project is to investigate the effects of the disclosure requirement by discovering who uses the resulting information and whether company donations would change if the requirement were abolished. In doing this, a considerable amount of material is being amassed on the practices and attitudes of companies in charitable giving. This article discusses some of that evidence.

Research Method

In order to study company practices and attitudes, a questionnaire is being sent to 240 companies randomly selected from the top 500 listed in the Times 1000⁽⁴⁾. Forty of these have already been contacted as a pilot study. So far, 18 useable replies (45%) have been received. A further 10 companies declined to help or sent incomplete information. The research findings described below are preliminary ones from this pilot study.

Questionnaire responses always have to be treated with care, and a certain degree of scepticism. As a complement, therefore, to the questionnaire, it is intended to conduct an econometric analysis of the behaviour of aggregate corporate donations around the time that the disclosure requirement was introduced, in order to find out whether its introduction caused any changes.

According to Shenfield⁽¹⁾ "there is no evidence that disclosure has inhibited any company from making donations" (p.513). However, it would be unwise to place too much reliance on her assertion because of the date and nature of her study and the limited question she addresses. There are difficulties with the data to be used, as some writers have noted^(2,3,5), but it will be interesting to examine the questionnaire responses in the light of any results obtained from the quantitative study.

As mentioned earlier, it is possible that a number of parties are interested in the information disclosed and might therefore suffer if the statutory requirement were withdrawn. The final part of the project is therefore to contact a number of likely interested organisations to ascertain their opinions of the disclosure requirement.

Research Findings

In this section a general impression of the main findings of the pilot study will be presented. To many people the practice of companies making charitable contributions seems strange or wrong. Friedman⁽⁶⁾, for example, views it as a misuse of shareholders' funds and as an indication of socially undesirable monopoly power. Others^(7,8,9) consider such contributions to be a significant feature of commercial operation in a modern capitalist economy. The companies in the survey were asked why they thought they gave to charity. Most answered in terms of social responsibility, with a general emphasis on giving to charities connected with their line of business, or to charitable causes in the localities in which they operate. Although this might be expected to have some public relations benefit, only two companies identified public relations as their main motivation for giving.

The amounts actually given by the respondents varied considerably, from £2,000 up to £100,000. The mean was about £25,000. Respondents were also asked about the use of covenants. Virtually all companies gave some money under covenant; about 60% was given this way. The proportion varied greatly from company to company, but there didn't seem to be any clear difference between large and small givers. Just under half the companies used the facilities of the Charities Aid Foundation.