

RGC Ref. No.: <u>UGC/FDS16/B08/16</u> (please insert ref. above)
--

**RESEARCH GRANTS COUNCIL
COMPETITIVE RESEARCH FUNDING SCHEMES FOR
THE LOCAL SELF-FINANCING DEGREE SECTOR**

FACULTY DEVELOPMENT SCHEME (FDS)

Completion Report

(for completed projects only)

<p><u>Submission Deadlines:</u> 1. Auditor's report with unspent balance, if any: within six months of the approved project completion date. 2. Completion report: within 12 months of the approved project completion date.</p>

Part A: The Project and Investigator(s)

1. Project Title

The Relationship between Corporate Philanthropy and Corporate Financial Performance in
Hong Kong-Listed Companies

2. Investigator(s) and Academic Department(s) / Unit(s) Involved

Research Team	Name / Post	Unit / Department / Institution
Principal Investigator	LAM Sze-sing Associate Professor	Lee Shau Kee School of Business and Administration, The Open University of Hong Kong
Co-Investigator	HUNG Hie-yiin Senior Lecturer	
Co-Investigator	CHOI Ping-man Assistant Professor	

3. Project Duration

	Original	Revised	Date of RGC / Institution Approval <i>(must be quoted)</i>
Project Start Date	1 January 2017	N.A.	20 May 2019
Project Completion Date	31 December 2019	30 June 2020	
Duration (<i>in month</i>)	36 months	42 months	
Deadline for Submission of Completion Report	31 December 2020	30 June 2021	

Part B: The Final Report

5. Project Objectives

5.1 Objectives as per original application

1. *To examine the relationship between monetary and non-monetary corporate philanthropy and corporate financial performance*
2. *To examine the impacts of sociopolitical environment and ownership structure on the relationship between corporate philanthropy and corporate financial performance.*
3. *To examine the effect of stringent control on ESG disclosure on the relationship between corporate philanthropy and corporate financial performance.*

5.2 Revised objectives

Date of approval from the RGC: N.A.

Reasons for the change:

5.3 Realisation of the objectives

(Maximum 1 page; please state how and to what extent the project objectives have been achieved; give reasons for under-achievements and outline attempts to overcome problems, if any)

All project objectives have been achieved in the study. Nine years monetary donation data (2011-2019) and five years of non-monetary donation data (2015-2019) were obtained from annual reports and CSR reports published on the HKEX or the listed firms' websites. The data collection have been delayed for several months as many companies have delayed the release of annual and ESG reports of Year 2019 due to the outbreak of COVID-19 pandemic in year 2000. However, we found that both the financial and philanthropic giving data were distorted by the social unrest in Hong Kong economic environment in the second half of Year 2019. So, the data of the last study year (2019) has to be excluded from the study to enhance the external validity of the findings.

Regression analysis was performed to evaluate the relationships between philanthropic giving and financial performance (ROA) and the impacts of social-political context and government control on the relationship (i.e., Objectives 1&2). Lagged and non-lagged models were constructed for studying the relationships between monetary donation and ROA. Non-monetary donations were classified into six types in the study and quantified

by the total number of philanthropic projects in each type including cause-related marketing, in-kinds donation, advocacy advertising, alliance with non-profit organization, social responsible employment and manufacturing practices, and corporate volunteer community service projects. The moderation effects of socio-political context and government control were incorporated in the models. The models were tested with panel and subsample data.

Given the amendments in the ESG reporting was effectively a year before the “comply or explain” requirement in 2017, the non-monetary donations of listed firms were increased significantly in 2016 while the monetary donation was gradually increased since 2016. Exploratory analysis was considered to be more appropriate for studying the effects of the stringent control on ESG disclosure on the relationship (i.e., Objective 3). As a result, statistical tests were used to evaluate the changes in philanthropic contributions of firms within the study period (2015-2018). Firms with philanthropic contributions throughout the whole study period was grouped based on the philanthropic giving dimensions by clustering method to explore how the control affected the philanthropic giving behavior of firms operated under different socio-political context and government control.

5.4 Summary of objectives addressed to date

Objectives <i>(as per 5.1/5.2 above)</i>	Addressed <i>(please tick)</i>	Percentage Achieved <i>(please estimate)</i>
1. To examine the relationship between monetary and non-monetary corporate philanthropy and corporate financial performance	✓	100%
2. To examine the impacts of sociopolitical environment and ownership structure on the relationship between corporate philanthropy and corporate financial performance.	✓	100%
3. To examine the effect of stringent control on ESG disclosure on the relationship between corporate philanthropy and corporate financial performance.	✓	100%

6. Research Outcome

6.1 Major findings and research outcome

(Maximum 1 page; please make reference to Part C where necessary)

In the full paper, the regression analysis results show a positive association between the current and lagged philanthropic giving and financial performance. The relationship between non-lagged monetary donation and financial performance (ROA) was generally stronger than that of lagged monetary donation. This indicates that non-lagged monetary donation may be a more appropriate proxy than lagged monetary donation for studying the effect of philanthropy on financial performance. Subgroup analysis shows that the relationship is contingent on the socio-political and government control factors. In particular, Hong Kong firms benefit more from philanthropic giving than Mainland China firms, and non-government control mainland private firms have a stronger positive relationship than the state-owned enterprises. This implies the social impact of corporate philanthropy may vary by the political and economic systems and corporate philanthropy giving may hurt instead of bolstering financial performance of firms under government control.

The under preparation working paper further extends the analysis in the full paper to include six types of non-monetary donations including cause-related marketing, in-kinds donation, advocacy advertising, alliance with non-profit organization, social responsible employment and manufacturing practices, and corporate volunteer community service projects. The regression analysis results for the relationship between non-lagged monetary donation financial performance and the moderation effects of socio-political and government control factors are similar. For non-monetary donations, only advocacy advertising and social responsible employment and manufacturing practices are positively related to the financial performance. The positive relationships don't contingent on the socio-political factor. Subgroup analysis reveals that government control weaken the positive relationship of social responsible employment and manufacturing practices. Exploratory analysis shows firm's philanthropic giving in general increased year-by-year, particularly in 2016. The statistical test (t-test) performed on firms with philanthropic contributions throughout the whole study period shows that the contribution to advocacy advertising, alliance and social responsibility and volunteerism are increased significantly as the amendment of ESG reporting effective in 2016. Subgroup analysis further reveals that contribution to social responsibility and volunteerism were significantly increased in Hong Kong firms and SOE in 2016 while mainland private firms showed a big jump also in other non-monetary donations except cause related marketing. This suggests that firms tend to engage in non-monetary donation under the "comply or explain" requirement. Clustering analysis creates high and low philanthropic giving groups for Hong Kong firms, mainland private firms and SOE, respectively. Analysis of clusters suggests that Hong Kong larger firms might tend to undertake more philanthropic giving than direct marketing compared to smaller firms, and mainland private firms with higher leverage might have higher tendency for philanthropic giving to gain better political access in the mainland. However, undertaking philanthropic giving in SOE might be more a government than corporate performance consideration.

6.2 Potential for further development of the research and the proposed course of action (*Maximum half a page*)

Non-monetary corporate philanthropy can be in many different forms but there are only a few studies related to non-monetary corporate philanthropy. Unlike monetary donation, the true value of different forms of non-monetary donations are difficult to estimate. Since the Hong Kong Exchange (HKEX) does not require listed firm to report the value of non-monetary donations, there is a great variety in how listed firm determine and report their non-monetary philanthropy in the ESG report. This study is the first attempt to examine between monetary and non-monetary corporate philanthropy and corporate financial performance. Due to limited and unstructured information obtained from ESG reports, the non-monetary donations can only be tally counted by the total number of philanthropic projects as an proxy of philanthropic contribution of listed firms in the current study that may affect the accuracy of the analysis models. Besides, under the “comply or explain” disclosure requirement, less than 60% of firms report their philanthropic contributions in ESG report. Together with the deletion of 2019, only limited data is available for model constructions. HKEX has further tightened ESG rules and introduced the “mandatory” disclosure requirement on 1 July 2020. This provides an opportunity to obtain sufficient data to (1) develop better measurements for each non-monetary donation, (2) study the relationship between the relationship between monetary and non-monetary donations and corporate financial performance at the industrial level, and (2) evaluate the impact of upgrading the disclosure obligation on corporate’s philanthropy giving.

7. Layman’s Summary

(*Describe in layman’s language the nature, significance and value of the research project, in no more than 200 words*)

This research project has setup a five years database (2015-2019) of philanthropic information regarding the monetary donations and non-monetary donations of Hong Kong Exchange (HKEX) listed companies to investigate the relationship between different types of donations and financial performance. The analysis models show a positive association between the monetary donation and certain types of non-monetary donation and financial performance. Hong Kong firms benefit more from philanthropic giving than Mainland China firms, and non-government control mainland private firms have a stronger positive relationship than the state-owned enterprises. This implies the social impact of corporate philanthropy may vary by the political and economic systems and corporate donation may hurt instead of bolstering financial performance of firms under government control. Stringent ESG reporting disclosure rules to “comply or explain” would motivate listed firm to donate more. The findings provide insights on making philanthropic investments in corporations and the regulatory control of relevant information reporting. The database provides a new resource for future research on the corporate philanthropy of Hong Kong-listed companies.

Part C: Research Output

8. Peer-Reviewed Journal Publication(s) Arising Directly From This Research Project

(Please attach a copy of the publication and/or the letter of acceptance if not yet submitted in the previous progress report(s). All listed publications must acknowledge RGC's funding support by quoting the specific grant reference.)

The Latest Status of Publications				Author(s) (denote the corresponding author with an asterisk*)	Title and Journal / Book (with the volume, pages and other necessary publishing details specified)	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the Institutional Repository (Yes or No)
Year of Publication	Year of Acceptance (For paper accepted but not yet published)	Under Review	Under Preparation (optional)						
		✓		LAM Sze-Sing*, HUNG Hie-Yiin Pauline, CHOI Ping-Man Samuel	"A study of socio-political and government control factors on the relationship between corporate philanthropy and firm performance", <i>Asian Journal of Business and Accounting</i>	No	Yes	Yes	Yes
			✓	LAM Sze-Sing*, HUNG Hie-Yiin Pauline, CHOI Ping-Man Samuel	"The effects of stringent ESG reporting requirements on corporate philanthropy behaviours"	No	No	Yes	Yes

9. Recognized International Conference(s) In Which Paper(s) Related To This Research Project Was / Were Delivered

(Please attach a copy of each conference abstract)

Month / Year / Place	Title	Conference Name	Submitted to RGC <i>(indicate the year ending of the relevant progress report)</i>	Attached to this Report <i>(Yes or No)</i>	Acknowledged the Support of RGC <i>(Yes or No)</i>	Accessible from the Institutional Repository <i>(Yes or No)</i>
July 2018	The impact of socio-political context and government control on corporate philanthropy and firm performance	8 th Annual International Conference on Accounting and Finance (AF 2018)	June 2018	No	Yes	Yes

10. Whether Research Experience And New Knowledge Has Been Transferred / Has Contributed To Teaching And Learning

(Please elaborate)

N.A.

11. Student(s) Trained

(Please attach a copy of the title page of the thesis)

Name	Degree Registered for	Date of Registration	Date of Thesis Submission / Graduation
N.A.			

12. Other Impact

(e.g. award of patents or prizes, collaboration with other research institutions, technology transfer, teaching enhancement, etc.)

N.A.

13. Statistics on Research Outputs

	Peer-reviewed Journal Publications	Conference Papers	Scholarly Books, Monographs and Chapters	Patents Awarded	Other Research Outputs (please specify)	
No. of outputs arising directly from this research project	1 (Under review)	1	N.A.	N.A.	Type	No.
	1 (Working paper)					

14. Public Access Of Completion Report

(Please specify the information, if any, that cannot be provided for public access and give the reasons.)

Information that Cannot Be Provided for Public Access	Reasons
N.A.	