



Philanthropic Donations By Western Australian Microbusinesses

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Abstract

Little is currently known about the nature of social contributions by microbusinesses. Charitable donations (philanthropic activities) by small and very small firms has been rarely studied to date. Only limited knowledge currently exists about the type of donations made, the charitable causes for which such gifts are made, and what firm characteristics (if any) can be reliably used to predict the likelihood of an organisation's charitable activity.

A study of 95 Western Australian microbusinesses revealed that most respondents did not contribute to any charitable causes. Of the minority that did provide some support, their clear preference was via a financial contribution rather than by "hands-on" involvement (that is, contributing the labour or time of the owner or employees). The most popular destinations for financial contributions were to environmental, health, religious, and sporting causes; cultural and educational bodies received much lower contributions.

Whereas previous studies have suggested that some factors are likely to be positively associated with the likelihood of charitable giving (such as the owner's age, gender and education, the level of financial resources available to the firm, or the firm's age), the current study found no evidence to suggest any statistically meaningful association between such variables and propensity for charitable giving. However, a weak association with one demographic variable – the owner's level of education – was noted.



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INTRODUCTION

All business enterprises have an impact on the community in which they operate. Indeed, it is often argued that one of the most valuable contributions of the small and medium-sized enterprise (SME) sector is that it provides wealth creation and employment opportunities for many members of society, as well as increasing freedom of choice for consumers and providing an outlet for entrepreneurial business ideas.

However, the potential social impact of small firms is much larger than these obvious economic benefits. SMEs also contribute to the development of communities in many other ways. They provide a means through which goods and services are made available to the public; help decentralise and disseminate economic resources; can be a tool for family economic advancement; provide education, training and skills to employees; and act as a mechanism through which minority groups, women and young entrepreneurs can exploit opportunities often denied to them by larger corporations. In these and many other ways, small firms play an important role in all societies. Whilst some of these social contributions arise as a deliberate strategy of the enterprise and its owner/managers, in many cases such benefits are an unintended by-product of the firm's activities.

But to what extent do small firms deliberately seek to contribute to their community? This is a relatively under-researched area of SME studies, especially in regards to the micro-businesses that make up the majority of all business entities. The purpose of this study was to explore and test a number of propositions relating to one aspect of the social contribution of such businesses – the charitable donations (philanthropic contributions) made by these firms. In particular, it sought to empirically assess the type of donation made, the charitable causes for which such gifts were made, and to determine if there were any firm characteristics which could be reliably used to predict the likelihood of a firm's charitable activity.

BACKGROUND: LITERATURE REVIEW

In recent years there has been a growing recognition of the nexus between society and the individual business enterprise. Once an area of relatively minor concern, the relationship between firms and their community is now a major area of contemporary management research.

Often referred to as “corporate social responsibility,” such studies seek to examine the role that business organizations play in the activities and development of society. The argument about whether or not businesses should be involved in broader community issues is a long-running one. It has traditionally been argued that the responsibility of organizations lies primarily in conducting their own affairs, and anything which prevents or reduces a firm from maximising its own profitability is an unnecessary hindrance (Joyner, Payne & Raiborn 2002). According to this perspective, firms which focus on making a profit are able to deliver wealth to their owners, which can then be used to help society as such individuals wish. This viewpoint is often accompanied by claims that senior managers usually do not have the skills or knowledge, much less the willingness, to become socially responsible. It is the role of government and community groups, not businesses, to determine what constitutes social well-being; therefore, it is inappropriate for firms to be involved in such activities (Friedman & Friedman 1980).

This traditional perspective has come under increasing challenge, with several arguments put forward in favour of greater social responsibility by business. In the first place, it has been suggested that firms need to contribute back to the society which has supported them. Businesses rely on the community to purchase their products and services, so activities that enrich society and improve its welfare will, indirectly, also help the firm. Another claim is that since business possesses substantial resources (such as money, people and ideas) that can be used to help the community, it should do so (Robbins et al 2000). Acs and Phillips (2002) have



argued that philanthropic or benevolent activity by firms is in fact an important component in the development and growth of an entrepreneurial economy. The redistribution of wealth and resources by business organisations helps fund social institutions and community development, which in turn encourages further economic growth. It is part of an implicit “social contract” that helps legitimise the role of entrepreneurship in the community.

There are many avenues through which firms can adopt socially responsible business practices. These include protecting and improving the natural environment; providing a safe, secure and enjoyable workplace for employees; making philanthropic donations (either of cash or of employee time) to charitable activities; and promoting opportunities for groups which have traditionally been excluded from many jobs (such as people with disabilities or minority ethnic backgrounds).

As the term might suggest, most studies of corporate social responsibility have examined the role of the large corporation in society (Thompson & Smith 1993). The activities of small firms, which represent the majority of business enterprises in most economies, has been frequently overlooked. The number of studies which have focused on philanthropic activity by small businesses is, to date, quite limited.

One such study was that by Cronk (1988), who examined the charitable activities of small firms in Wisconsin and found that the most popular form of donation was a monetary contribution. Health and welfare causes were most likely to be recipients of firm donations. The propensity to make charitable contributions of money was positively correlated to the age of the owner, the size of the firm, and the age of the firm.

A study of charitable contributions by 167 small firms in the United States by Thompson, Smith & Hood (1993) showed that few enterprises have formal policies or guidelines on such activities; instead, most decisions to give or not are made as a result of the owner’s personal interest in a particular issue or cause. The most popular form of contribution was via a monetary donation; contributions of employee or owner time were much less likely. Most donations were quite small (about 0.2% of total annual sales), and were often affected by the firm’s overall level of profitability. Most donations were focussed on community, educational, and sports organisations, although religious, health, cultural and environmental charities also received funding.

Similar results were obtained in an evaluation of the donor practices of 75 small firms in San Francisco (Sterne 1990), which found that the chief executive took primary responsibility for making donations, although the allocation of support still tended to occur in a fairly ad-hoc manner. Financial factors were also an important variable when deciding whether to contribute or not. Welfare, health and artistic causes were more generously supported than other areas. However, contrasting results were reported by Arlow & Ackelsberg (1991), who found that micro-sized enterprises were more concerned with social responsibility issues than larger organisations, and that financial capacity had no significant impact on a firm’s willingness to contribute.

Thompson and Hood (1993) also evaluated the level of small business donations between minority-owned and nonminority businesses in the United States. They found that there was a significant difference between the two groups, with minority-owned enterprises contributing proportionately more funds than other firms. Their work also indicated that firms owned by minority entrepreneurs tended to contribute to different causes, and were especially generous to religious causes. The reasons for this disparity were unclear, but appeared to be related to cultural differences between the two cohorts.

There is little substantive research into the philanthropic activities of small business in Australia, New Zealand or Asia. Only a few studies have been conducted into this field.



The most comprehensive examination of this issue to date has been the work of the Australian Bureau of Statistics (2002a), which surveyed the contributions of firms throughout the country, the form such contributions took, and the causes to which it was given. The ABS found that the small business sector was the largest donor group, providing more cash donations than either medium or large-scale firms. Most such donations were directed towards community welfare, sport and recreational causes, and health-based activities. In contrast, in-kind contributions were much more likely to be made by large-scale firms. The study also examined the barriers to business giving by non-contributing firms, and found that there were two primary causes: a lack of business resources and the fact that they had not been asked.

Other Australian evidence also supports the contention that small businesses play a major role in charitable contributions to their local communities. A survey of over 9,000 small businesses found that about two-thirds (67%) of the firms studied provided support to community organisations and activities. This contribution was estimated to be worth about \$500 million in cash and \$1 billion in kind (contributions of unpaid labour or donated goods) each year (Council of Small Business Organisations of Australia 2000).

Data from New Zealand indicates over half of all business enterprises in that country contribute to social and community causes, although such data must be treated with caution since it also includes sponsorship contributions as well as donations. The most commonly-cited reasons for giving involved a mixture of both altruism and self-interest: firms recognised that it was important to support their local community, but at the same time also realised that there were potential marketing benefits for themselves in such activities (Knuckey, Johnston, Campbell-Hunt, Carlew, Corbett & Massey 2002).

There are some problems in researching the level of small business philanthropy. One issue is the level of self-response bias: firms who contribute to worthy causes are more likely to respond to a study, giving rise to a bias in the responses received. A second issue is what to measure. Charitable contributions can take one of a number of different forms, including donations of money, employee labour (time), or in-kind contributions (such as products or services). Some of these, such as direct monetary payments, are easy to measure, whilst others are harder to quantify. Another problem is the role of sponsorship, a marketing-related activity in which contributions are made to various causes in the expectation that this will produce a benefit for the firm. In some studies, sponsorship is treated as a charitable contribution, but in others it is not regarded as a truly philanthropic activity. Finally, there is the problem of exactly what firms are to be studied. Even when the SME sector is examined, the focus of many researchers is frequently on so-called “small” and “medium”-sized enterprises; the role of micro-businesses tends to be ignored or overlooked, even though they constitute the largest single group of firms.

In Australia, a microfirm is regarded as a business enterprise that has less than five employees. “Small enterprises,” in the conventional reckoning, have between 5 and 19 staff, a medium-sized firm employs between 20 and 199 persons, and a large enterprise has more than two hundred staff (Australian Bureau of Statistics 2002a). Microfirms are in fact a key component of the Australian economy, constituting over 80% of all business enterprises. Once regarded as a marginal and highly risky form of entrepreneurial activity, in recent years increasing recognition has been given to the fact that many microfirms are longlived, and able to generate significant returns for their owner/operators (Australian Bureau of Statistics 2002c, Department of Workplace Relations and Small Business 1998). Similar comments have been noted in other countries (Good & Levy 1992). As their size would suggest, in microfirms the owner/manager is usually the key decision-maker, and this provides greater opportunity for the owner’s personal values to drive organizational activities. This increased recognition of the aggregate significance of microfirms has seen a number of detailed studies undertaken into different aspects of business operations, performance and management. For example, Dawson, Breen & Satyen (2002) have examined the ethical perspectives of Australian micro-business owners, but as yet there has been no research into their role in business philanthropy.

Given the lack of existing research into this topic, the issues examined in this project were essentially exploratory in nature, and focussed on two main sets of questions. The first was to provide descriptive data



that illustrates the current behaviour of Australian microfirms: What proportion of microbusinesses actually make donations to charitable causes? Do firms tend to contribute in-cash or in-kind? Are all charitable activities supported equally, or are some categories more likely to receive support than others?

The second focus of the study was to determine if owner and firm demographic features were significantly associated with the propensity to give. As some of the above studies have suggested, it may be possible to find a link between philanthropic activity and certain quantitative variables. An owner's age, gender and education level has previously been suggested as an indicator of social concern, and it would appear likely that such factors might also be indicative of microbusiness contributions. It has also been suggested that larger, more established firms (such as those with more financial resources, or older firms) might also be more inclined to give, since they have a greater capacity to do so, and are less focussed on business survival. Accordingly, the following hypotheses were tested:

H₁: There is a relationship between the level of a microfirm's financial resources and its propensity to donate to charitable causes.

H₂: There is a relationship between the age of a microfirm and its propensity to donate to charitable causes.

H₃: There is a relationship between the age of the business owner and the firm's propensity to donate to charitable causes.

H₄: There is a relationship between the gender of the business owner and the firm's propensity to donate to charitable causes.

H₅: There is a relationship between the education level of the business owner and the firm's propensity to donate to charitable causes.

METHOD

The study was focussed on micro-businesses based within Perth, the capital city of the state of Western Australia. A sampling frame was constructed from five contiguous local government areas, within which a census of micro-firms had recently been conducted. Using this database, a mail survey was conducted. Mail distribution was used as the most appropriate mechanism since the five municipalities covered a wide geographical region and the number of firms to be surveyed was quite substantial. All questionnaires were personally addressed to the owner/operator of the business.

The nature of philanthropic activity was measured using a set of questions based on previous work in this arena by the Australian Bureau of Statistics (ABS 2002a). Respondents were also asked to provide basic demographic data relating to the business, such as the age, gender and education of the business owner(s), firm turnover, and the number of years the business had been operating. The questions were included as part of a larger survey, rather than being the sole focus of the study, thus reducing the likelihood of respondent bias.

A total of 544 questionnaires were distributed, from which 95 usable replies were received, representing a 17.5% response rate. Although somewhat low by absolute standards, such a rate is similar to those received by other researchers in the Australian micro-business field (Houghton & CREEDA 1999; Dawson, Breen & Satyen 2002).

RESULTS & DISCUSSION

The ninety-five respondents represented a range of different industry sectors. Thirty-five firms (37% of all replies) were from the services field, eleven (12%) were trades-related business, a further eleven (12%) were small-scale manufacturers, and the rest (39%) represented a variety of other commercial and industrial groupings. The retail sector was relatively poorly represented, with only four respondents drawn from that domain. Most businesses had been in existence for a substantial period of time; 73% of all respondents had been trading for more than two years.



Descriptive Data

As Tables One and Two show, the number of firms that actually make donations to charitable causes is relatively low. In regards to financial donations, 59% reported that they had made no contributions within the last year, 22% of respondents contributed to one charity, 11% to two, 6% to three charitable activities, and only one firm (1%) reported contributing to all the different charitable causes examined. Sporting, religious and health causes were most likely to receive a monetary donation. Of the actual amounts donated, religious groups tended to receive the most.

Overall, microfirms are much less likely to make a contribution of staff or owner's time than they are of money. Two-thirds of all firms (67%) failed to make any in-time contribution, another 21% contributed to only one charitable sector, 4% supported two causes, 6% made contributions to three sectors, and only one firm reported provided in-time contributions to all charitable sectors. The cultural, health and religious sectors were the most frequently supported areas, whilst the health sector received the most amount of actual time contributed by donor firms.

The tables clearly reveal that not all causes are treated equally, and that small firms are more likely to contribute financially rather than through personal attendance and effort (time). (A Chi-square analysis of the distribution patterns in each case was significant, with $p < 0.01$ in each case). This result is not surprising. Time stress is a common problem for many small business owners, with a typically hectic work-related schedule that often precludes involvement in extraneous projects. As Lane, Ding, Dandridge and Rudolph (1999) have pointed, time availability and usage rarely operates at its most efficient level within small firms. Many small business owners report a lack of time to achieve all the tasks available for their completion (Clayton 1998), or for future planning and so-called "non-core" activities such as ethical issues, community liaison, or environmental concerns. Time management is rarely performed well in a small firm, and time management skills are often lacking.

Hypothesis Testing

Given the low number of responses, it was not possible to undertake parametric tests of differences in the patterns of giving and their relationship with the independent variables identified above (owner's age, gender and education; firm age; and firm financial resources). Instead, patterns between each variable and giving behaviour were examined by the use of the Chi-squared technique, which can be used to test the statistical significance of an observed association in a cross-tabulation.

H₁: There is a relationship between the level of a microfirm's financial resources and its propensity to donate to charitable causes.

The financial resources of a small firm may be measured in a number of ways, including annual net profit, retained earnings, or annual turnover. However, many owner/managers were reluctant to reveal information about their profitability, and small firms structured as a sole trader or partnership usually do not have substantial retained earnings. Accordingly, this proposition was tested by cross-tabulating annual firm turnover with contributions. There was no significant relationship between firm turnover and monetary donations; in other words, no evidence exists to suggest that firms with larger financial resources are more inclined to donate money than other microfirms. A similar result was recorded for contributions of employee time.

H₂: There is a relationship between the age of a microfirm and its propensity to donate to charitable causes.

No clear pattern was found to exist between firm age and donor giving, either in regards to financial donations or time donations. In some respects this is a surprising result, since it might reasonably be assumed



that young, newly-established firms would be more inclined to focus on survival, and hence less likely to contribute than their older counterparts.

H₃: There is a relationship between the age of the business owner and the firm's propensity to donate to charitable causes.

The age of individual firm owners also yielded a similar result. There appeared to be no significant relationship between an owner's age and the likelihood of contributions (either of money or time).

H₄: There is a relationship between the gender of the business owner and the firm's propensity to donate to charitable causes.

Once more, no discernible link could be found to exist. The donor behaviour of men and women (both for monetary and time contributions) does not appear to differ in any statistically significant manner.

H₅: There is a relationship between the education level of the business owner and the firm's propensity to donate to charitable causes.

No discernible relationship was found to exist between education levels and contributions of firm time. However, a somewhat different picture emerged when the issue of monetary donations was evaluated: a weak, but not statistically significant, link (at an acceptable level) existed ($\chi^2 = 5.278$, d.f. = 2, $p = 0.071$) (see Table 3). Further examination of the relationship between education and contributions, using a larger sample size, may be worth conducting.



CONCLUSION

The results of the present study provide some initial understanding of charitable activities amongst very small firms in Australia. In general, most microfirms do not appear to contribute to various philanthropic causes. Of the minority that do provide some support, their clear preference is via a financial contribution rather than by a “hands-on” involvement that detracts from their ability to provide sufficient attention to their core tasks.

The data also indicates that it is somewhat difficult to reliably predict which firms are more likely to contribute than others. Whereas previous studies have suggested that some factors are likely to be positively associated with the likelihood of charitable giving (such as the owner’s age, gender and education, the level of financial resources available to the firm, or its age), the current project showed no evidence to suggest any statistically meaningful association between such variables and the likelihood of charitable giving. However, a weak association with one demographic variable – the owner’s level of education – was noted.

It is clear that the field of small firm philanthropy requires substantially more investigation than has been the case to date. Given that some of the current results contradict previous work conducted in other nations, further studies are needed into these issues. Such results are important not only from a purely academic perspective. As major players in the social and economic life of each community, a better understanding of small firm philanthropy will enable policy-makers and charitable organisations to develop strategies which can help raise the overall level of giving by firms – and which, in turn, can help improve the life of all those who make up such communities.



Table 1: Monetary Contributions

	Environment	Cultural/artistic	Health	Religious	Sporting	Educational	Other
Yes	12	7	16	15	16	7	10
No	73	76	69	69	65	77	41
Not given	10	12	10	11	14	11	44
Total	95	95	95	95	95	95	95

Of those that responded yes, mean annual contributions (in Australian dollars) were:

	Environment	Cultural/artistic	Health	Religious	Sporting	Educational	Other
	114	147	92	605	284	43	237

Table 2: Time Contributions

	Environment	Cultural/artistic	Health	Religious	Sporting	Educational	Other
Yes	7	10	10	10	9	8	3
No	50	47	48	47	49	49	35
Not given	38	38	37	38	37	38	57
Total	95	95	95	95	95	95	95

Of those that responded yes, mean annual contributions (in number of hours) were:

	Environment	Cultural/artistic	Health	Religious	Sporting	Educational	Other
	27	31	45	10	6	17	4



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Table 3: Cross-tabulation Results – Owner’s Education and Monetary Contributions

			Group\$		Total
			Money Donors	Non-donors	
Education Level	Secondary school	Count	10	15	25
		% within education	40.0%	60.0%	100.0%
		% within Group\$	30.3%	31.9%	31.3%
		% of Total	12.5%	18.8%	31.3%
	Trade certificate/ diploma	Count	13	27	40
		% within education	32.5%	67.5%	100.0%
		% within Group\$	39.4%	57.4%	50.0%
		% of Total	16.3%	33.8%	50.0%
	University degree	Count	10	5	15
		% within education	66.7%	33.3%	100.0%
		% within Group\$	30.3%	10.6%	18.8%
		% of Total	12.5%	6.3%	18.8%
Total		Count	33	47	80
		% within education	41.3%	58.8%	100.0%
		% within Group\$	100.0%	100.0%	100.0%
		% of Total	41.3%	58.8%	100.0%



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