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Assessment of returns from Zero impact of strategic strategy on firm's performance

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Abstract

Critics argue sharply and blamed top management inappropriately for utilizing corporate strategic philanthropy as a tool to redeem their fallen image instead of the interest of the company. Nevertheless, there is a school of thought that believes that strategic philanthropy model have no impacts on the corporate performance especially in the recession period. This study focuses on Measurement of the impact of strategic philanthropy behavior on profitability measures: ROA, ROE. This study also measure Gross margin and Turnover model of strategic philanthropy in the selected firms. This research begins with audited consolidated financial statement of 59 listed companies comprising of 471 subsidiaries that were operating in the four years under study to obtain the secondary data. Initial approach of Statistical analysis method using IBM SPSS version 21 is used to analyze the data obtained from the secondary source. The research findings support the null hypothesis that there is no evidence to support that strategic philanthropy have impact on firms' performance. Based on the research findings, managerial implications and directions for future research are discussed.

Keywords: Return on assets (ROA), Return on equity (ROE), Gross margin, Turnover, Subsidiaries

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1. Introduction

1.1 Research Backgrounds and Motives

Strategic philanthropy as a new wave has not become so common in contemporary business world. Barnes (2005) mentioned that this new wave of corporate philanthropy has its own ideological foundations that date to 2002 (Wilkinson 1991). The subject of strategic philanthropy therefore become very paramount especially in the post recession era in the united states where corporations were constantly reporting losses in the financial statements and many engaged in massive laid off and eventually closed down their different offices. Though the intention of this research is to lay the broad foundation for the problem that leads to the study or place this study in the context of the scholarly literature while reaching out to specific audience (Creswell,1994). The actual importance of this little research of the corporate philanthropic, however is to examine the state of importance especially in the period of recession and aftermath of recession. Figuratively and on the highest level, it is like a nuclear family without a fund to support the family in an ongoing process in the acquisition of their basic need such as food, shelter and clothing and the potential danger it can caused.

1.2 Statement of the problem

This problem statement describes the context for the study and it also identifies the general analysis approach" (Wiersma, 1995). A problem might be defined as the issue that exists in the literature, theory, or practice that leads to a need for the study (Creswell, 1994). This research project in the nutshell examines the state of philanthropic behavior as prevailing in the US industry in the post recession period between 2008-2011 specific to the information technology industry.

1.4 Research Questions and Hypothesis

Hypotheses are relevant to theoretical research and are typically used only in quantitative inquiry. A research question poses a relationship between two or more variables but phrases the relationship as a question; a hypothesis represents a declarative statement of the relations between two or more variables (Kerlinger, 1979; Krathwohl, 1988).

Therefore, this research will have single null hypotheses stated as:

Strategic philanthropy has no impact on the performance of the firm in the recession for measurement on return on assets and equity.

1.6. Organization of the study and Research procedures:

This study is organized into five chapters. The general background information of the study, research purposes and hypotheses, significant and the limitation of the study are included in chapter I. Chapter II provides review of relevant literatures. Chapter III provides an explanation of the methodology and the data collection procedure utilized for this study. Chapter IV, outline the results of the data collection and the findings. Chapter V, present the authors' objective conclusions and rational recommendations for future research purposes.

1.7. Significance of the study

This study will make a unique contribution to academic literature in that it examines philanthropic activities within the period of the recession which were marked by fierce economic downturn, acute corporate losses and mass laid off and collapse of many too big to fail corporations. Four years of data is quite enough to analyze the changes in the philanthropic activities with firms' performance. Earlier studies prior to recession use shorter period of

studies. This study measures performance by the use of internal and external financial metrics which is not synonymous with other studies.

1.8. Limitations and Delimitations

This study examines the relationship between strategic philanthropy and firm's performance in the recession period in the United States of America. For the purpose of generalization of the study, the profit seeking firms in high –tech industries in the U.S are selected. The study does not examine philanthropy activities by high tech industries operating outside US. Non listed high-tech firms are not included in the sample size for this study.

2. Literature Review

2.1 Empirical studies on strategic philanthropy

Ferguson, Deephouse and Ferguson (2000) stated that at the firm level, identity, strategy and reputation have been connected theoretically and empirically. Griffen (2004) in his research study mentioned that empirically there's a significant gap in our knowledge concerning the effect of restructuring on corporate philanthropy because both phenomena tend to be examined separately in their respective academic discipline. It is on this premises that this piece of academic thesis emanated. Berman, Wicks, Kotha and Jones(1999) drew a result that scholars wishing to do empirical work on stakeholder management have had little to go on except broadly defined models of stakeholder-related behavior. Mark and Pauly (1987) provided a different view that one clear message from recent work is that, despite the anomalous character of the not-for-profit form, theory does not predict wide differences in behavior at the level of the market, nor does empirical evidence suggest that large differences do occur. This does not matter with the geographical location because sometimes which is being perceived is non synonymous to the events happening in the real world situation. However, in narrating the empirical studies in Africa Henderson (2002) mentioned that Non-governmental religious organizations typically de-emphasized in analyses of civil society where often themselves the foundation for local government activities.

On the contrary, Americans have traditionally been generous with their time and money. For instance, according to a survey by the Johns Hopkins University, 73% of Americans gave money to charity in 1999, which was equivalent to one-third of the domestic federal budget, or 20% of the national income (Greenfield, 2000). Historically, faith based giving dominates in the United States with 43% of all charitable contributions. However, there are indications that strategic philanthropy in particular appears to be heading for a period of significant change, especially from the standpoint of non-faith based organizations (Berman, Brooks & Murphy, 2006).

According to Gardberg and Fombrun, (2006) between 1995 and 2000, U.S charitable giving from all sources increased an estimated 17.5 percent, to an annual 2 percent of the U.S gross domestic product. Kaplan and Norton, (1996) in their study pointed out those companies around the world transform themselves for competition that is based on information, their ability to exploit intangible assets has become far more decisive than their ability to invest in and manage physical assets. For example, (Arthur, 1996) cited America Online as building up a lead of more than 4.5 million subscribers by giving away free services. But because of the internet's dominance, it is not yet clear it can transform this huge base into later profits. Eccles (1991) examined that within the next five years, every company will have to redesign how it measures its business performance. Brammer, Pavelin and Porter (2008) stated that firm-level charitable giving is reported in the Annual Report of each company. Their findings suggest that corporate charitable giving is influenced by the attributes of the country in which the firm is present that is associated with the most acute lack of political rights or civil liberties. Krishnan, Joshi and Krishnan (2004) added similarly, donations from private philanthropic organizations are often conditional on providing indigent care. Schoemaker and Amit (1993), further evidence that, in essence, firms develop specialized assets to enhance profits at the price of reduced

flexibility in the face of Schumpeterian shocks. It may well be that firms with available resources may choose to spend those resources on doing good by doing well and that those resources allocation may result in improved Corporate social performance overall. However, cccnoted that confusion about corporate giving terminology arises when a sponsored activity, judged by its outward characteristics appear to fall into more than one category. Smus (2011) examined that strategic philanthropy today is united with business and supports the acquisition of future customers and new markets by way of building trust and credibility. Leisinger (2007) mentioned that a commitment to corporate philanthropy is ideally a conscious choice of top management, based upon an informed decision founded on sound analysis of alternative causes, objectives, time frames and resource commitments. Wang, Li and Choi, (2008) argued that on one hand, corporate philanthropy enhances a firm's financial performance by enabling the firm to gain greater control over stakeholder resources. On the other hand, as the amount of philanthropic contributions continues to increase, agency costs and direct costs eventually become dominant. Porter and Kramer (2011) mentioned that shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center, implying that philanthropy is very central to the organization development. Mcgregor and Ryan (2009) in their empirical studies stated that of reducing the compliance burden of this organization and mentioned that two recent studies in 2006 affirm high compliance burden on donor organizations. The first study conducted a case study of the challenges, time spent and cost associated with funder compliance and concluded that staff on average spent 44% of their time on funding compliance tasks with 11% of the organization's funds spent on compliance related expenditures (excluding funding submissions). The second survey attempted cost quantification found the ongoing compliance on goods and service tax compliance costs in relations to turnover were 2.2% for organizations with a turnover of under \$10million. This is high compliance cost for taxation paperwork alone without inclusion of non-paperwork compliance costs such as new goods and service tax (GST) compliant cash registers and accounting software. Ackerman(1996) clarify this by saying that the relative importance of public funds, private gifts, and fees or charges differs across countries. Nowhere is private charity so important as in the United States. According to Keeler, Melnick and Zwanziger (1999) in their empirical studies cited California as becoming the first state to pursue health care reform through market based pro-competition policies in 1982. California adopted a law to encourage increased price competition in the health care sector by allowing insurance companies to selectively contrast with providers. Feldstein (1971) suggested that the rapid cost of hospital cost has become a major problem of public policy. In 1970, hospital service costs has become a major problem of public policy. Adamache and Sloan (1983) also reiterated that according to 1979 American Hospital Association(AHA) survey of hospital-Blue Cross contract provisions, retrospective charge-based contracts are the most common (in terms of actual contracts). Most of these contracts pay 100 percent of hospital charges incurred on behalf of covered patients. Those which do not pay 100 percent typically receive an absolute discount of two or three percent of charges. However, Hume, Mort, Liesch and Winzar (2006) conducted a detailed research in hospital setting and it was found that evoked emotions significantly influenced loyalty behavior with relational factors, those delivered from personnel, most strongly influencing emotions. Physical factors had a mixed impact on emotion and therefore a minimal indirect impact on loyalty. However, limited empirical evidence is available on the influence of emotion directly on re-purchase intention. Kornai (1979) summarized this in his research and pointed out that in order to avoid misunderstandings, it should be noted that if an economy is qualified as a resource –constrained system, this does not mean that in such an economy all resources are utilized at 100 percent at every moment. The relationship can be rigorously proved theoretically, and is also empirically verifiable.

3. Research Methodology

3.1 Research Design and Approach

According to Wiersma (1995), the methods or procedures section is really the heart of the research proposal. This step indicates the methodological steps taken to answer or test the hypothesis illustrated in the Hypotheses section.

Quantitative approach to the subject using statistical tool IBM SPSS version 21 is used to confirm and validate the findings from the data collected from secondary source clearly and unambiguously. Initial analysis of quantitative data was chosen as it provides better resolution to the research questions and facilitates statistical analysis, comparability and generalization of results as required in most of the research work.

3.2 Sampling

The key reason for being concerned with sampling is that of validity—the extent to which the interpretations of the results of the study follow from the study itself and the extent to which results may be generalized to other situations with other people (Shavelson, 1988). To accomplish the tasks associated with data collection, secondary sources data collection. Methods were used.

An initial selection of fortune 500 companies operating in the information technology industry in the United States were selected. Out of these, the financial data was pulled out from the individual company's website and Edgar /SEC database for the four year period (2008-2011) for 59 companies having 471 subsidiaries included in their consolidated statements of operations.

3.3 Assumptions

The main criteria that were used for the inclusion of a firm in a study are:

1. All firms included in the sample must be in operation for the four year between 2008-2011
2. All firms must be listed on US securities Exchange commission and their statements of operation available.
3. All firms must be operating in the US market.
4. All firms must be in Technology industry.

The research sample was subdivided into two: Group 1 consist of firms using the strategic philanthropy in achieving its' firm's objectives which were found to be 54 out of 59 firms and group 2 were those that did not adopt the strategy in achieving its firm's objectives which were found to be 5 out of 59 firms selected.

3.4 Research Instrumentation

To determine and measure successful impact of strategic philanthropy as a discretionary senior level management tool ,a number of dependent and independent variables were selected and examined to determine their influence. These variables would be presented finally as part of the regression model. A cross reference sampling of 59 firms from the first 500 fortune companies operating in the information technology industry were taken to collect Secondary data. Secondary data was obtained from a variety of public sources relative to many of the variables. A number of statistical methods or tools were used to analyze these data. In the subsections that follow, the methodology that was used in developing this dissertation has been further explained and discussed Strategic philanthropy (SPP) was the main and key variable measured in relation to dependent and independent variables. Dependant variables associated

with this study are: ROA–Return on Assets, ROE,-Return on Equity,. Independent variables were associated with this research are gross profit margin (M) and Turnover Ratio (TR)

3.5 Data Collection Procedure

Brammer, Pavelin and Porter (2008) stated that firm-level strategic philanthropic activities is reported in the Annual Report of each company. So the financial data of each firm would primarily be the major source of information for the study. Financial data was obtained from US Securities and Exchange Commission (SEC)/Edgar Electronic database on corporate filling. Corporate filling information is reported on form 10K. Some companies had similar financial information posted in their website which also serves as alternative information source. For the dependence variables, performance was best measured by accounting measures of ROA, ROE EPS and P/E. Also for the independence variables, strategic philanthropy measures is in relation to Gross Margin (M) Turnover ratio(TR) expressed as percentage of sales volume as reported on the audited financial statement of the selected firms.

3.6 Validity

The validity of a measurement instrument is the extent to which the instrument measures what it is supposed to measure. Reliability is the consistency with which a measuring instrument yields a certain result when the entity being measured hasn't changed" (Leedy & Omrod, 2005). To ensure internal validity, accounting measures are used to measure performance and the variables predicting performance. External validity was ensured by choosing firms in the fortune 500 companies in the information technology company for the study. This makes it easier for generalization of results. Reliability was ensured in this study by adhering to the same procedure in collection of financial data on firms and the performance of the statistical analysis for each of the dependent and independent variables selected for this study.

4. Results of Study

4.1 Data Analysis and Statistical Analysis Tool

IBM SPSS version 21 was used to analyze the data collected to provide various information needed for the study. The rationale for using the IBM SPSS version 21 was for the sake of avoiding complex statistical analysis and provides easy to understand design methodology and analysis using the most current version of the software. Preliminary data analysis revealed the following descriptive statistics for the 59 firms selected in the sample in the information Technology industry in the adaptation of strategic philanthropy during the recession.

Figure 1

Statistics		ROA	ROE	SPP
N	Valid	59	59	59
	Missing	0	0	0
Mean		.035712	-.17737	12.69105
Median		.030000	.02000	3.25000

The first and initial analysis indicates a positive overall performance for the four year period of 2008-2011 in terms of external measures with exception of return on equity which recorded a negative mean of -.177. All other indicators of, return on assets, and earnings per share recorded positive mean values of .0357 with strategic philanthropy as high as 12.691

Figure 2

Statistics		SPP	Margin	Turnover
N	Valid	59	59	59
	Missing	0	0	0
Mean		12.69105	.35261	7.58822
Median		3.25000	.32000	2.54000

The second initial data analysis of firms selected in the sample in the information Technology industry indicates a positive overall performance for the four year period of 2008-2011 in terms of internal measures. The two independent variables as performance measures compared with strategic philanthropy recorded a positive variables for margin with positive mean values of .352, and turnover as .308 respectively.

However, according to Tabachnick, & Fidell, (2007) although normality of the variables is not always required for analysis; the solution is usually quite a bit better if variables have normal distribution. It follows that if variables are not the same, some of the variables will be too peak or skewed positively or negatively and this will affect the solution. A normal distribution for figure 1 and figure 2 will provide a better view in appearance. Careful look at the amount representing the strategic philanthropic actions for all the 59 firms in the sample shows that, 54 had huge values with the least extreme value of 0.2million dollars which was used in this study as the cut off point so that all 54 firms that had amount equal or greater than 0.2million dollars formed one group (group 1) and the 5 of the 59 firms which did not adapt the strategy with the donated amount of zero also formed another group (group 0).

The two approaches used are Logarithmic transformation to reduce skewness and kurtosis of sample data, and improved the statistical evaluation of the distribution and 5% trim mean which helps to eliminate the effect of outliers from the IBM SPSS version 21 as illustrated in the figures 3 below.

Figure 3

Descriptive Statistics with Logarithmic Transformation of Variables (Z score) and Trim mean

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
Zscore (ROA)	59	-2.74954	3.66611	.0000000	1.0000000	.456	.311	2.489	.613
Zscore (SPP)	59	-.42820	6.17140	.0000000	1.0000000	4.688	.311	25.988	.613
Zscore (ROE)	59	-5.13431	1.82184	.0000000	1.0000000	-4.125	.311	19.373	.613
Zscore (Margin)	59	-1.92532	2.75342	.0000000	1.0000000	.447	.311	-.480	.613
Zscore (Turnover)	59	-2.75208	4.85405	.0000000	1.0000000	3.050	.311	13.640	.613
Valid N (listwise)	59								

Figure 4
Correlations among Variables (Z scores)

		ROA	ROE	SPP	Margin	Turnover
	Pearson Correlation	1	.317*	.200	.107	-.076
ROA	Sig. (2-tailed)		.014	.129	.420	.566
	N	59	59	59	59	59
	Pearson Correlation	.317*	1	.092	-.028	-.046
ROE	Sig. (2-tailed)	.014		.490	.835	.730
	N	59	59	59	59	59
	Pearson Correlation	.200	.092	1	-.075	.001
SPP	Sig. (2-tailed)	.129	.490		.571	.992
	N	59	59	59	59	59
	Pearson Correlation	.107	-.028	-.075	1	-.060
Margin	Sig. (2-tailed)	.420	.835	.571		.651
	N	59	59	59	59	59
	Pearson Correlation	-.076	-.046	.001	-.060	1
Turnover	Sig. (2-tailed)	.566	.730	.992	.651	
	N	59	59	59	59	59
	N	59	59	59	59	59

Hypothesis Testing for H0: Adaptation of strategic philanthropy has no impact on performance of the firm in the recession (T-Test for ROA Group Mean)

Figure 5
Descriptive Statistics for ROA

	N	Minimum	Maximum	Mean	Std. Deviation
Zscore(ROA)	59	-2.74954	3.66611	.0000000	1.00000000
Valid N (listwise)	59				

The descriptive statistics in figure 5 is as a result of IBM SPSS version 21 calculation of the minimum value, maximum value, sample mean and standard deviation for the whole sample when looking for mean difference in ROA as the first dependant variable in this analysis.

Group Statistics for strategic philanthropy adaptation and non adaptation firms in the sample.

		N	Mean	Std. Deviation	Std. Error Mean
Zscore(ROA)	>= 0.2m	54	-.0079411	1.00383120	.13660412
	< 0.2m	5	.0857642	1.06688007	.47712327

59 firms constitute the sample of which 54 firms in some way used strategic philanthropy during recession to achieve their goals forming group 1 (with a cut off amount equal or greater than \$0.2million) and only 5 companies forming (group 0) did not adapt the strategic philanthropy as a new wave.

Independent Samples Test

		Levene's Test for Equality of Variances					t-test for Equality of Means		95% Confidence Interval of the Difference	
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Zscore (ROA)	Equal variances assumed	.058	.811	-.199	57	.843	-.09370528	.47137897	-1.03762538	.85021482
	Equal variances not assumed			-.189	4.680	.858	-.09370528	.49629357	-1.39613216	1.20872160

The *t* test value in the figure 5 continued with equal variances assumed as -.199; this falls in the left hand rejection region for any commonly used α , and the *p* value is .843. The *p* value of .843 implies that, the difference between the two means is not statistically significantly different from zero at the 5% level of significance. There is an estimated change of -.093% (SE = .471%). However, there is insufficient evidence ($p = .843$) to suggest that Strategic philanthropy does impact firms performance. One can conclude that the mean of the Strategic philanthropy group is lesser than the mean of the non strategic philanthropic group. However, positive difference in mean between the two groups is statistically insignificant. Based on a confidence level of 95% and a confidence interval of [-1.03, .850] one can say that Strategic philanthropy has no impact on the firm performance during the recession. The H_0 hypothesis is then supported.

H_0 : Strategic philanthropy has no impact on the performance of the firm in the recession
 $H_0: \mu_1 - \mu_2 = 0$ Supported

Hypothesis Testing for H_0 : Adaptation of strategic philanthropy has no impact on performance of the firm in the recession (T-Test for ROE Group Mean)

Figure 6
Descriptive Statistics for ROE

	N	Minimum	Maximum	Mean	Std. Deviation
Zscore(ROE)	59	-5.13431	1.82184	.0000000	1.0000000
Valid N (listwise)	59				

The descriptive statistics in figure 6 is as a result of IBM SPSS version 21 calculation of the minimum value, maximum value, sample mean and standard deviation for the whole sample when looking for mean difference in ROE as the second external measure of dependant variable in this analysis.

Figure 7
Group Statistics for strategic philanthropy adaptation and non adaptation firms in the sample

	SPP	N	Mean	Std. Deviation	Std. Error Mean
Zscore(ROE)	>= 0.2m	54	-.0116207	1.04099063	.14166088
	< 0.2m	5	.1255034	.34637167	.15490212

Group statistics is the result of IBM SPSS version 21 calculation of sample size, sample mean, standard deviation and standard error mean when testing for mean difference in ROE with Strategic philanthropy as the main variable. 59 firms constitute the sample of which 54 companies in some way used strategic philanthropy during recession forming group 1 (with a cut off amount equal or greater than \$0.2million) and only five companies forming (group 0) did not adapt the strategic philanthropy as a new wave.

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means				95% Confidence Interval of the Difference		
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Zscore (ROE)	Equal variances assumed	.304	.584	-.291	57	.772	-.13712405	.47119242	-1.08067	.8064225
	Equal variances not assumed			-.653	12.812	.525	-.13712405	.20991063	-.591284	.3170366

The t test value in the figure 6 continued with equal variances assumed as -.291; this falls in the left hand rejection region for any commonly used α , and the p value is .772. The p value of .772 implies that the difference between the two means is not statistically significantly different from zero at the 5% level of significance. There is an estimated change of -.137% (SE = .471%). However, there is insufficient evidence (p = .772) to suggest that Strategic philanthropy does impact firms performance. One can conclude that the mean of the Strategic philanthropy group is lesser than the mean of the non strategic philanthropic group. However, positive difference in mean between the two groups is statistically insignificant. Based on a confidence level of 95% and a confidence interval of [-1.08, .806] one can say that Strategic philanthropy has no impact on the firm's performance during the recession. The H0 hypothesis is then supported

H0: Strategic philanthropy has no impact on performance of the firm in the recession.
H0: $\mu_1-\mu_2=0$ Supported

5. Conclusion and Recommendations

This chapter embodies answers to the research questions, contribution of the study to literature and recommendations for actions.

Hypothesis	Statistical Technique	Result
H0: SPP has no impact on firm's performance.	Multiple regression	supported

The findings of this study will help in mitigating fear among critics and those on the school of thoughts who blame the concept on top management for using them to redeem their fallen image, and wastefully utilize shareholders money with no immediate and direct return. This study has indicated that even though corporations were still interested and loosely utilizing the strategy but that might not be the influencing factor that contributed to their low level turnover

hence low profitability. This study will make significant contribution to literature because it uses combination of statistical tools for quantitative approach.

The information Technology industry experience a sharp decline in profit growth during the four year period of the recession which resulted in closure of too big to fail corporation .Thus , an attempt to identify the impact on corporation strategic philanthropy and its impact to these key indicators will bring back some sanity and help shape the future of strategic philanthropy in these firms as well as adding to academic knowledge by way of closing the gap in the research studies on the subject matter specific to the information technology industry. The ultimate goal is the proposition of this model for future use by other researchers who may be interested in the subject matter as a new wave by which corporations designed their discretionally management activities to achieve their business goals.

6. Recommendation for further study

Further research in un-explored areas will be beneficial to literature. Studies on improvement on reporting metrics and tracking and focus on accountability and strategy, measurement and the creation of a new philanthropy strategy for the companies in the strategic focus areas are key areas that will be beneficial to literature and to prospective investors in the future. Secondly, future research should focus not only on firms that utilize the strategic philanthropy, but also on firms that have particularly not sterilize the new wave with dynamic leadership .This is because many firms in the US, Europe and Asia are now adopting a hybrid model of a strategic philanthropy, whose measurement from the global reporting perspective are not straight forward.

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