

Donate Money, but Whose? An Empirical Study of Ultimate Control Rights, Agency Problems, and Corporate Philanthropy in China

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Abstract Using empirical evidence gathered from Chinese listed companies, this article explores the relationship between micro-governance mechanisms and corporate philanthropy from a corporate governance perspective. In China's emerging market, ultimate controlling shareholders of state-owned enterprises (SOEs) are reluctant to donate their assets or resources to charitable organizations; in private enterprises (PEs) marked by more deviation in voting and cash flow rights, such donations tend to be more likely. However, the ultimate controllers in PEs refuse to donate assets or resources they control or own, which implies that corporate philanthropy by PEs comes at the cost of others, through assets or resources owned by minority shareholders. Even after devastating natural disasters such as the 2008 Wenchuan Earthquake, the controlling shareholders continue to express reluctance to donate any assets they control. Despite widespread evidence that corporate philanthropy boosts corporate growth and profitability, these ultimate controllers indicate no intention to donate their own money as a means to improve corporate performance.

Keywords Ultimate control right · Type II agency problem · Corporate philanthropy · Deviation of voting rights and cash flow rights

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Introduction

Corporate philanthropy has many benefits: It improves the reputations of controlling shareholders and managers, offers greater managerial utility (Atkinson and Galaskiewicz 1988; Galaskiewicz 1997; Haley 1991),¹ can create and maintain stable political–commercial relationships (through political philanthropy) (Neiheisel 1994; Sánchez 2000),² increases political legitimacy (Ma and Parish 2006; Wang and Qian 2011), and enhances a firm's corporate reputation (Brammer and Millington 2005; Cumming and Johan 2007; Fisman et al. 2005) and performance (Brammer et al. 2006; Orlitzky et al. 2003; Saiia 2002; Sánchez 2000; Wokutch and Spencer 1987). Philanthropic behaviors also might reduce monitoring by minority shareholders (Doh and Guay 2006; Ma and Parish 2006; Marquis et al. 2007; Neiheisel 1994; Sánchez 2000; Scherer and Palazzo 2007; Turban and Greening 1997; Wang and Qian 2011) and obscure any questionable activities of ultimate firm controllers. Yet in emerging markets such as China, corporate social responsibility (CSR), including corporate philanthropy, often lags behind economic growth. Various loopholes or gray areas in the institutional environment, such as a legal system in transition, a

¹ According to agency theory, corporate philanthropy improves the private benefits of CEOs but does not maximize shareholders' interests (Atkinson and Galaskiewicz 1988). Corporate philanthropy can help managers improve their social status, self-image, and reputation (Galaskiewicz 1997; Haley 1991).

² Strategic motivations for political–corporate philanthropy behaviors reflect the goal of maximizing returns on political investments (Sánchez 2000). Neiheisel's (1994) political enterprise model suggests that corporate philanthropy can help companies achieve certain political benefits and thus earn more money. With data from 2,870 PEs in China, Ma and Parish (2006) find that Chinese enterprises obtain political legitimacy and status by donating money to the government.

lack of regulatory mechanisms or effective monitoring, and widespread tolerance of bribery and corruption, offer partial explanations for this gap (Tan 2009). Moreover, there is little incentive for firms to give back to the community and society. Less than 1 % of Chinese firms make charitable donations (Zou 2009), and the vast majority have no philanthropic agenda. Thus, the social responsibility index of China's top 100 corporations [including state-owned (SOE), private (PE), and foreign enterprises] is only 17.0 (Chen et al. 2010); as Tan (2009) notes, multinational corporations operating in China often fail to maintain their CSR practices, blaming inadequate regulation and preexisting ethical concerns.

Another explanation for this situation might reflect the notable difference between mature and emerging markets when it comes to type I agency problems between shareholders and managers. In China, a highly concentrated ownership structure usually prevails, in the form of a pyramid control structure³ that contributes to greater deviation in voting rights (VR) and cash flow rights (CFR) (La Porta et al. 1999). The ultimate controllers, who enjoy the advantage of control rights, face conflicts of interest with minority shareholders (Almeida and Wolfenzon 2006; Attig et al. 2003; Claessens et al. 1999; Johnson et al. 2000; La Porta et al. 1999, 2000; Shleifer and Vishny 1997), in that the ultimate controllers obtain private benefits by ignoring the minority shareholders' interests (Shleifer and Vishny 1997). Claessens et al. (1999) suggest that exploitation by ultimate controllers of minority shareholders, or "tunneling" (Johnson et al. 2000), is the main governance problem confronting East Asian companies. Thus, corporate governance in China struggles with type II agency problems between controlling shareholders and minority shareholders, and the protections of the rights and interests of minority shareholders remain woefully inadequate (La Porta et al. 1999). Because ultimate controllers dominate the key parts of corporate governance and management in China, type II agency problems likely exert important impacts on the corporate governance and philanthropic behaviors of Chinese companies.

Using a theoretical analysis of empirical evidence gathered from A-share listed companies in China, this study explores the relationship between micro-governance mechanisms and corporate philanthropic behaviors, in an effort to address three main research questions:

- (1) Do ultimate controlling shareholders in Chinese A-share listed companies donate the assets or resources they control or own, and do they donate assets or resources owned by minority shareholders?

- (2) Have major catastrophes (e.g., Wenchuan Earthquake) altered patterns of ultimate control rights, type II agency problems, or corporate philanthropy?
- (3) Does corporate philanthropy exert any significant influence on corporate performance?

As its contribution to literature on the relationship between ownership and corporate philanthropy (Shan et al. 2008; Zhang et al. 2009), this article explores VR, CFR, their deviation, and corporate philanthropy by considering the influence of type II agency problems and adopting ultimate control theory (La Porta et al. 1999). The 2008 Wenchuan Earthquake has already served as a context for discussing philanthropic behaviors among Chinese firms (Shan et al. 2008; Zhang et al. 2009); the current study offers additional insights based on empirical evidence from A-share listed companies operating between 2003 and 2008, which reveals the impact of this disaster on Chinese corporate philanthropy and firm performance. In turn, it sheds light on the impact of micro-governance mechanisms on corporate philanthropy and the impact of major disasters on ultimate control rights, type II agency problems, and corporate philanthropy, thereby linking corporate philanthropic behaviors with corporate performance. The findings enhance understanding of the relationship between corporate philanthropy and corporate governance, especially in emerging markets, and contributes to CSR literature pertaining to corporate governance.

Theoretical Analysis and Hypotheses

VR, CFR, and Corporate Philanthropy

According to La Porta et al. (1999), even in the 27 most developed economies, companies with a Berle–Means type ownership structure are rare. Globally, most shares of companies instead are held by governments and families. In proposing their ultimate control theory, La Porta et al. (1999) note that VR implies the degree of control held by ultimate controlling shareholders over the listed company's assets or resources. Voting rights can be measured by $\sum_{i=1}^n \min(a_{i1}, a_{i2}, a_{i3}, \dots, a_{it})$, where a_{i1}, a_{it} indicates all the shareholding proportions of the i th control chain, that is, the weakest layer in the shareholding chain or the sum of the weakest layer in every shareholding chain between ultimate controllers and their listed companies. Cash flow rights instead represent the actual input (assets or resources) of ultimate controlling shareholders through pyramid structures, cross-shareholdings, and multiple stock classes, measured by $\sum_{i=1}^n \prod_{j=1}^t a_{ij}$, where $a_{i1} \dots a_{it}$ indicates all shareholding proportions of the i th control chain, or the product of shareholding ratios of every layer in the

³ Graham and Dodd (1934) note that investors can invest less but gain benefits and survive by taking advantage of a pyramid structure. Bebchuk et al. (1999) demonstrate that shareholders can control many companies, with little investment.

shareholding chain or sum of the product of shareholding ratios of every layer in every shareholding chain between the ultimate controllers and their listed companies.

Ultimate controllers of listed companies might not be willing to support corporate philanthropy using their owned or controlled assets or resources for two main reasons. First, good corporate governance demands decisions that seek to maximize shareholder value. Because in emerging markets, ownership structures often are conglomerated (Claessens et al. 2000), controlling shareholders gain significant power over corporate operations and are motivated to supervise managers and solve type I agency problems between themselves and the managers (Jensen and Meckling 1976; Shleifer and Vishny 1986, 1997). However, with little legal protection for minority shareholders, type II agency problems between ultimate controllers and minority shareholders can be serious (La Porta et al. 1999). Ultimate controlling shareholders create deviation between VR and CFR through a pyramid control structure (Attig et al. 2003; Johnson et al. 2000), multiple ownership structure (Claessens et al. 2000), or cross-shareholding (Weidenbaum 1996), or else by issuing shares with double voting rights to expand their control rights and manipulate companies with minor CFR. Without protection mechanisms for small- and medium-sized investors in emerging markets, ultimate controllers also can take advantage of their smaller shareholders (Claessens et al. 2002). As Zingales (1995) argues, controlling shareholders may help resolve type I agency problems, but because they are inclined to tunnel in listed companies and exploit the rights and interests of small- and medium-sized shareholders, they can create more serious Type II agency problems (La Porta et al. 1999). In a pyramid structure, ultimate controllers transfer corporate minority shareholders' resources through self-dealing or dilutive share issues, which may be legitimate but still is covert (Johnson et al. 2000). Moreover, ultimate controllers tend to place poorly performing enterprises at the bottom of a pyramid structure to minimize any reactive damage when they tunnel out their resources (Attig et al. 2003). Thus with a pyramid structure, ultimate controlling shareholders receive returns on their equity and also control retained earnings (Almeida and Wolfenzon 2006). In China, ultimate controlling shareholders dominate corporate governance and management; with their motivation and capability to instigate tunneling effects (Johnson et al. 2000), they ignore the rights of others to support their own interests (La Porta et al. 1999, 2000), at little cost or risk to themselves (Almeida and Wolfenzon 2006; Attig et al. 2003). In turn, they have little incentive to promote corporate philanthropy or CSR using resources they control or own.

Second, though studies in mature markets highlight the benefits of corporate philanthropy for a firm's reputation

(Brammer and Millington 2005; Cumming and Johan 2007; Fisman et al. 2005) and performance (Brammer et al. 2006; Orlitzky et al. 2003; Saiia 2002; Sánchez 2000; Wokutch and Spencer 1987), such outcomes have less motivating power in transitional China (Chen et al. 2010; Tan 2009; Zhong et al. 2009), where corporate philanthropy is not included as a strategic objective in product and capital markets (Brammer and Millington 2006; Hess et al. 2002; Saiia 2002; Saiia et al. 2003; Sánchez 2000; Smith and Stodghill 1994; Vidaver-Cohen and Altman 2000).⁴ Even if corporate philanthropy were to improve a Chinese corporation's reputation and performance, ultimate controllers would be forced to share these benefits with all shareholders. In contrast, by engaging in tunneling behaviors, these shareholders reserve all benefits for themselves. The arguments for corporate philanthropy and CSR thus lack impetus, because ultimate controlling shareholders are unwilling to use corporate resources that they control or own for this end, regardless of the potential benefits.

Thus in China, ultimate controllers, who are deeply affected by type II agency problems and maintain control rights, are unlikely to devote assets or resources that they control or own to corporate philanthropy, because the tunneling effect grants them greater earning potential than corporate philanthropy. In turn,

H1 Ultimate controllers' voting rights relate negatively to corporate philanthropy, such that they are not inclined to promote corporate philanthropy using assets or resources they control.

H2 Ultimate controllers' cash flow rights related negatively to corporate philanthropy, such that they are not inclined to promote corporate philanthropy using assets or resources they own.

Deviation of VR and CFR

When VR and CFR deviate (Attig et al. 2003; Claessens et al. 2000; Johnson et al. 2000; La Porta et al. 1999; Weidenbaum 1996), ultimate controlling shareholders can manipulate more assets or resources than they invested, because most corporate resources come from minority shareholders. Imagine five companies, A, B, C, D, and E each with 1 million shares. Company A holds 50 % of the shares of company B which holds 50 percent of the shares of company C, and so forth. Company A (ultimate controlling shareholder) thus owns 50 % of the VR of company E, with only a 62,500 RMB investment. The remaining 937,500 RMB comes from minority shareholders.

⁴ Similarly, it may keep managers from donating for their own utility (Atkinson and Galaskiewicz 1988; Galaskiewicz 1997; Haley 1991).

In turn, a question arises regarding whether these ultimate controlling shareholders take advantage of minority shareholders' assets or resources to engage in corporate philanthropy. In China's economy, where investors and other stakeholders lack many protections and centralized ownership (pyramid control structure) are common, the deviation of VR and CFR exists broadly and to a substantial extent. Severe conflicts between ultimate controlling shareholders and minority shareholders then may lead to an entrenchment effect (Claessens et al. 2000, 2002; Villalonga and Amit 2006). Claessens et al. (2002) find that more than one-third of all Asian companies have single controllers, which implies remarkable VR–CFR deviations and serious type II agency problems. Yeh and Woidtke (2005) also argue that greater deviation intensifies the motivation for tunneling behaviors, and Bebchuk et al. (1999) identify the pyramid structure, cross-shareholdings, and multiple classes of stock as determinants of VR–CFR deviations and agency costs. Ultimate controlling shareholders likely appropriate minority shareholders' value in key decisions such as corporate expansion, program selection, or control rights transfer. As CFR declines and the deviation level increases, these ultimate controlling shareholders have even greater motivation to damage minority shareholders, and agency costs increase exponentially (Bebchuk et al. 1999). Thus, through a pyramid control structure, ultimate controllers earn excess benefits while lowering their costs and risks, even with low CFR (Almeida and Wolfenzon 2006; Attig et al. 2003; Johnson et al. 2000).

It stands to reason that ultimate controllers invest less of a company's assets or resources when severe deviation exists between VR and CFR. They have an edge in terms of control rights, so managers—largely manipulated by the ultimate controlling shareholders—donate more of minority shareholders' money instead of the controlling shareholders', such that they enjoy risk preference in the decision-making process (Bebchuk et al. 1999). Then the ultimate controlling shareholders get shares of the benefits of corporate philanthropic behaviors, at the expense of small- and medium-sized shareholders. Because these ultimate controlling shareholders have incentives to tunnel, they invest in corporate philanthropy with resources provided by minority shareholders, leading to the following hypothesis:

H3 The deviation between voting rights and cash flow rights relates positively to corporate philanthropy, such that ultimate controlling shareholders make philanthropic donations with resources owned by minority shareholders rather than themselves.

Corporate Philanthropy and Corporate Performance

Corporate philanthropy is an increasingly important corporate strategy (Brammer and Millington 2006; Hess et al.

2002; Saiia 2002; Saiia et al. 2003; Sánchez 2000; Smith and Stodghill 1994; Vidaver-Cohen and Altman 2000). Saiia et al. (2003) define strategic philanthropy as the use of corporate resources for noncommercial community actions that benefit the corporation by improving its status—that is, doing good to do well. Corporate philanthropy creates advertising effects (Hess et al. 2002; Sánchez 2000),⁵ better reputations (Brammer and Millington 2005; Cumming and Johan 2007; Fisman et al. 2005), stronger political–commercial relationships (Ma and Parish 2006; Neiheisel 1994; Sánchez 2000; Scherer and Palazzo 2007; Wang and Qian 2011), and improved financial performance (Brammer et al. 2006; Orlitzky et al. 2003; Saiia 2002; Sánchez 2000; Wokutch and Spencer 1987).

In general though, companies have two motivations to engage proactively in CSR: economic and institutional. The former refers to the business, whereas the latter accounts for the influence of external institutions (Gao 2011). From an economic perspective, corporate philanthropic behavior can strengthen the bond between the firm's core competence and CSR, such as by helping companies improve their brand reputation (Sánchez 2000), differentiate themselves from other brands (Fombrun and Shanley 1990; McWilliams et al. 2006), reduce costs (Porter and Kramer 2006), or develop new markets (Smith 1994). From an institutional perspective, corporate philanthropic behavior increases cohesion between the company and its stakeholders. Thus, a company might engage in philanthropic behavior to gain legitimacy or win support from various stakeholders, such as governments (Ma and Parish 2006; Neiheisel 1994; Sánchez 2000; Scherer and Palazzo 2007; Wang and Qian 2011), nongovernmental organizations (Doh and Guay 2006), communities (Marquis et al. 2007), or employees (Turban and Greening 1997).

From a strategic philanthropy view, donations as part of CSR (Su and Zhong 2009) can effectively improve corporate financial performance. Using empirical evidence from *Fortune* 500 companies, Wokutch and Spencer (1987) find a weak positive relationship between corporate donations and financial performance. A meta-analysis by Orlitzky et al. (2003) reveals that corporate donations improve corporate financial performance more significantly than do other CSR behaviors. Similarly, Su and He (2010) indicate that corporate donations are positively and significantly associated with corporate performance, and a study of empirical evidence of A-share listed companies in China between 2001 and 2006 by Wang and Qian (2011)

⁵ Sánchez (2000) notes that corporate philanthropy can help companies build brand cognition and loyalty, as well as attract and retain employees. Hess et al. (2002), Smith (1994), and Vidaver-Cohen and Altman (2000) confirm that corporate philanthropy is a good global market entry strategy. Su and Zhong (2009) find that CSR activities (including donations) relate positively to the degree of industry internalization.

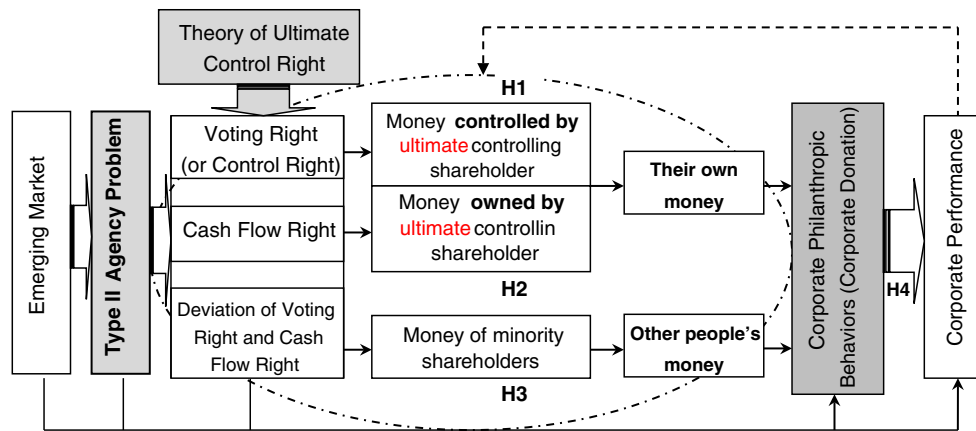


Fig. 1 Research framework

shows a positive relationship⁶ between corporate donations and financial performance. Muller and Kraussl (2011) find that a reputation for social irresponsibility is associated with both the greatest drop in stock prices and the greatest likelihood of making a subsequent charitable donation in response to a disaster. After the Wenchuan Earthquake in 2008, an investigation into the donation behaviors of Chinese A-share listed companies and the economic consequences of corporate donation behaviors revealed that corporate philanthropic behaviors improve corporate financial performances and market reactions (Shan et al. 2008).⁷ Accordingly, a fourth hypothesis predicts:

H4 Corporate philanthropy has a positive relationship with financial performance, such that corporate donations significantly enhance corporate performance.

This logic of ultimate controllers' behavior is consistent with common economic rationality. If corporate donations cannot significantly improve, or even harm, corporate financial performance, it is reasonable for ultimate controlling shareholders to be less inclined to donate assets or resources that they control or own. It also is unreasonable

for ultimate controllers to donate assets or resources of small- and medium-sized shareholders, because wasting corporate resources hinders overall corporate financial performance, regardless of who suffers the loss. In contrast, if corporate donations can significantly improve corporate financial performance, it is reasonable for ultimate controlling shareholders to donate the assets or resources of the small- and medium-sized shareholders, as any resulting scenario will benefit them as well. In other words, harm would be passed on, and benefits are shared.

Models and Data Description

Models

Table 1 outlines the variables. The tests of H1–H3 relied on the following models. Note that $DON_{i,t}$ represents the $Donin_{i,t}$ (total donation/revenue ratio) and $Cdonin_{i,t}$ (charitable donation/revenue ratio) of period t :

Model I: $DON_{i,t} = \beta_0 + \beta_1*VR_{i,t} + \beta_c*CV_{i,t-1} + \epsilon_{i,t}$
 Model II: $DON_{i,t} = \beta_0 + \beta_1*CFR_{i,t} + \beta_c*CV_{i,t-1} + \epsilon_{i,t}$
 Model III: $DON_{i,t} = \beta_0 + \beta_1*Dev_{i,t} + \beta_c*CV_{i,t-1} + \epsilon_{i,t}$

Then Model IV examines H4, with regard to the influence that corporate philanthropy exerts on corporate performance. In this model, $CP_{i,t+1}$ represents corporate performance indexes such as $Revinr_{i,t+1}$ (revenue growth) and $OPR_{i,t+1}$ (profit ratio) for $t + 1$:

Model IV: $CP_{i,t+1} = \beta_0 + \beta_1*DON_{i,t} + \beta_c*CV_{i,t} + \epsilon_{i,t}$

Dependent Variables

For the primary dependent variables, corporate philanthropy consists of two parts: $Donin$ represents the total donation and $Cdonin$ represents the charitable donation. As

⁶ Researchers disagree about the relationship between corporate donations and financial performance. For example, using empirical evidence from listed Fortune 1,000 companies, Seifert et al. (2004) find that corporate donations have no significant impact on corporate performance; Wang et al. (2008), using a cost-benefit analysis framework, indicate an inverted U-shaped relationship between corporate donations and financial performance. These conflicting findings indicate that strategic philanthropy includes institutional motivations that move beyond economic objectives, and the top management of companies also may lack donation knowledge and skills, such that they waste corporate resources.

⁷ After the Wenchuan Earthquake on May 12, 2008, consumers were so moved by Wang Laoji's donations to relief efforts that the soft drink brand ran out of stock in 2 days. In this textbook case, charitable donations enhanced performance and encouraged positive market reactions.

Table 1 List of variables

Type of variables	Variables	Code	Definition of variables
Dependent variables	Total donation	<i>Donin</i>	Total donation \times 100/revenue in t
	Charitable donation	<i>Cdonin</i>	Charitable donation \times 100/revenue in t
	Revenue growth	<i>Revinr</i>	Revenue growth ratio in $t + 1$ (revenue in $t + 1$ – revenue in t) \times 100/revenue in t
	Profit ratio	<i>OPR</i>	Operating profit ratio in $t + 1$ = profit in $t + 1$ \times 100/revenue in $t + 1$
Independent variables			
Experiment variables	Voting rights	<i>VR</i>	Voting rights of ultimate controlling shareholders in t
	Cash flow rights	<i>CFR</i>	Cash flow rights of ultimate controlling shareholders in t
	Deviation of VR and CFR	<i>Dev</i>	VR/CFR
Control variables	Year	Y_i	Dummy variable = 1 for company listing in t , 0 otherwise ($i = 2003, \dots, 2007$)
	Type of ultimate controllers	<i>SOEs</i>	Dummy variable = 1 for state-owned control (ultimate controller) in t , 0 otherwise
	Corporate performance	<i>ROE</i>	Return on net equity in $t - 1$
	Cash flow	<i>Cash</i>	Cash flow ratio in $t - 1$ = cash obtained in t /revenue in t
	Tax	<i>Tax</i>	Income tax ratio in $t - 1$
	Industry	<i>Direct</i>	Dummy variable = 1 for company products directly accessible to customers, 0 otherwise
	Leverage	<i>DTA</i>	Leverage in $t - 1$
	Managerial ownership	<i>Msh</i>	Shareholding ratio of managers (including directors, supervisors and CEOs) in $t - 1$
	Management structure	<i>Duality</i>	Dummy variable = 1 for duality of CEO and chair in t , 0 otherwise
Corporate scale	<i>Lnta</i>	Natural log of assets in $t - 1$	

in Shan et al.'s study (2008), the donation-to-revenue ratio measures corporate philanthropy, which mitigates the scale effect. The investigation also considers the influence of *Donin* and *Cdonin* on corporate philanthropy in Model IV for H4. For the secondary dependent variables, *Revinr* (revenue growth ratio) and *OPR* (operating profit ratio) measure corporate growth and profitability. The two indexes also act as robustness tests for each other.

Independent Variables

This study investigates the influence that VR, CFR, and the deviation of VR and CFR have on corporate philanthropic behaviors (*Donin* and *Cdonin*) from the perspective of the ultimate control theory and type II agency problems. The VR of ultimate controlling shareholders (La Porta et al. 1999) informs the test of H1. The cash flow rights of ultimate controllers provide the test of H2. The deviation of VR and CFR, or type II agency problems of ultimate controlling shareholders supports the test of H3.

Control Variables

Control variables measure the influence of corporate features and related factors on dependent variables.

Year (Y_i)

In years in which sudden accidents or events occur, such as 2008, corporate philanthropic behaviors may vary.

Type of Controller (Ultimate Controlling Shareholders)

Because PEs and SOEs have different ownership properties, they likely adopt different corporate governance and management mechanisms, which may influence their corporate philanthropy.

Corporate Performance and Cash Flow

Profitability and cash flow relate positively to corporate philanthropic behavior (Adams and Hardwick 1998; Crampton and Patten 2008; Galaskiewicz 1997; Useem 1988).

Tax

Implemented January 1, 2008, Item 53 of the Regulations for the Implementation of the Enterprise Income Tax Law of the People's Republic of China states that charitable donations by an enterprise, not more than 12 % of its total

annual profits, are deductible from the firm's income tax. The Provisional Regulations of the People's Republic of China on Enterprise Income Tax Rules, implemented before 2008, states "donations by taxpayers through non-profit community groups or state organs in Chinese territory to public welfare or education or civil affairs, as well as natural disaster areas or poor areas" is a public good and should be income tax exempt.

Industry

Useem (1988), Seifert et al. (2003), and Amato and Amato (2007) suggest that industry is an essential determinant of corporate philanthropy. In line with Shan et al. (2008), the dummy variable *Direct* takes a value of 1 for company products directly accessible to customers and 0 otherwise.

Leverage

Leverage should relate negatively to corporate philanthropy (Adams and Hardwick 1998; Brammer and Millington 2005).

Managerial Shareholding and Leadership Structure

Managers may engage in corporate philanthropy for its own sake (Atkinson and Galaskiewicz 1988; Galaskiewicz 1997; Haley 1991). Different managerial shareholdings and leadership structures imply different managerial powers.

Corporate Scale

Larger companies likely exhibit a lower ratio of donations to revenue (Shan et al. 2008).

Data Description

Only A-share listed companies that had disclosed their control structure and total amounts of charitable donations appeared in the research sample. Charitable donations are identified by state taxation authorities and the civil affairs department, which are reliable sources. The 1,100 companies initially identified included 17 in 2003, 21 in 2004, 17 in 2005, 279 in 2006, 358 in 2007, and 408 in 2008.⁸ Their total donations and charitable donations were derived from the non-operating expenses of the profit and loss items noted in the firms' annual reports. The data came from two databases available through the China Securities

⁸ The relatively few A-share listed companies between 2003 and 2005 led the regression analysis to focus on data obtained between 2006 and 2008. The empirical results and conclusions did not change. Space limitations prevent the presentation of these empirical analysis results, but they are available on request.

Market and Accounting Research (CSMAR) portal—the Corporate Governance Structure Database of China Listed Companies and the Financial Statement Database of China Listed Companies—as well as a database from Wind Information (China Finance Database). The variables appear in Table 2.

Empirical Results

Influences of VR, CFR, and their Deviation on Corporate Philanthropy

The key question for this study is whether ultimate controlling shareholders in A-share listed companies make donations with assets or resources that they control or with minority shareholders' assets or resources. As Table 3 reveals, the regression results from Model I, with *Cdonin* as the dependent variable, indicates support for H1 (10 % significance)⁹: The higher the VR of ultimate controllers the lower the charitable donation ratio (charitable donation/revenue). In China's emerging market, ultimate controlling shareholders, affected by type II agency problems, readily turn to tunneling behaviors for private gain and take advantage of their control rights (Almeida and Wolfenzon 2006; Attig et al. 2003; Johnson et al. 2000; La Porta et al. 1999, 2000).

In Model II, both coefficients of CFR, with *Donin* and *Cdonin* as the dependent variables, fit the predictions directionally, yet the regression results do not offer clear support for H2. Thus, it is not possible to assert confidently that ultimate controllers in A-share listed companies avoid donating assets or resources they own.

However, Model III supports H3: The greater the deviation of VR and CFR the higher the total donation ratio. Although ultimate controlling shareholders in A-share listed companies are reluctant to donate assets or resources they control, they are more willing to donate if most of the money comes from minority shareholders. As noted previously, such philanthropic behavior enhances managerial utility, creates political-commercial relationships, and improves corporate reputation and performance; it also can discourage external monitoring by minority shareholders and other stakeholders and mask tunneling behaviors. Thus, ultimate controlling shareholders receive self-serving benefits by making corporate donations using the resources provided by small- and medium-sized shareholders.

The control variables also indicate that general donation ratios in years other than 2008 (cf. 2005) tend to be lower.

⁹ The regression results of Model I are significant at 10.7 %, close to the 10 % criterion.

Table 2 Descriptive statistics and Pearson correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. <i>Donin</i>	0.060	0.005	1.000														
2. <i>Cdomin</i>	0.057	0.005	0.960	1.000													
3. <i>Revinr</i>	0.158	0.016	0.093	0.074	1.000												
4. <i>OPR</i>	0.067	0.005	0.155	0.162	0.086	1.000											
5. <i>VR</i>	38.475	0.480	-0.091	-0.104	0.071	0.020	1.000										
6. <i>CFR</i>	32.870	0.547	-0.092	-0.103	0.077	-0.001	0.854	1.000									
7. <i>Dev</i>	1.436	0.036	0.114	0.124	-0.032	0.061	-0.223	-0.503	1.000								
8. <i>SOEs</i>	0.713	0.015	-0.166	-0.155	0.009	-0.042	0.286	0.381	-0.294	1.000							
9. <i>ROE</i>	7.637	0.498	0.040	0.035	-0.038	0.223	0.149	0.090	-0.075	0.031	1.000						
10. <i>Cash</i>	0.060	0.026	-0.047	-0.049	-0.064	0.045	-0.059	-0.063	0.003	0.001	0.061	1.000					
11. <i>Tax</i>	0.235	0.010	0.027	0.026	-0.016	0.025	-0.120	-0.073	0.005	-0.059	-0.043	-0.081	1.000				
12. <i>Direct</i>	0.232	0.014	0.091	0.084	0.073	0.142	0.006	0.012	-0.006	-0.094	0.026	-0.081	0.095	1.000			
13. <i>DTA</i>	50.784	0.573	-0.074	-0.075	0.021	-0.142	-0.038	0.012	-0.055	0.052	-0.086	-0.112	0.095	-0.035	1.000		
14. <i>Msh</i>	2.636	0.360	0.083	0.081	-0.008	0.001	-0.047	0.014	-0.079	-0.352	0.083	-0.002	-0.048	0.024	-0.068	1.000	
15. <i>Duality</i>	0.101	0.010	0.055	0.064	-0.023	-0.062	-0.100	-0.065	0.086	-0.099	-0.016	0.020	0.000	-0.013	-0.024	0.056	1.000
16. <i>Lmta</i>	21.538	0.032	-0.071	-0.067	-0.025	0.111	0.254	0.234	-0.118	0.268	0.194	-0.046	0.032	-0.010	0.316	-0.205	-0.127

The Wenchuan Earthquake seemingly had a significant impact on corporate philanthropy. Notably, SOEs exhibited a lower total donation ratio (Shan et al. 2008; Zhang et al. 2009). The results of Model I with *Donin* as the dependent variable show that higher cash flows lead to lower donation ratios. In Model I and II with *Conin* as the dependent variable, a lower tax rate and directly accessible consumer products both prompt higher total donation ratios. These findings align with the conclusions of Useem (1988) and Shan et al. (2008). Finally, the Model I results with *Conin* as the dependent variable show that leverage relates negatively to the charitable donation ratio (Adams and Hardwick 1998; Brammer and Millington 2005).

Ownership Property Difference and Corporate Philanthropy

According to institutional theory (e.g. Scott 2008), regulations on governmental behavior strongly influence entrepreneurial donations (Campbell 2007; Wang and Qian 2011). For example, in Chinese business circles, non-SOEs often donate to obtain political legitimacy (Ma and Parish 2006; Neiheisel 1994; Sánchez 2000; Wang and Qian 2011). Establishing and maintaining good political-commercial relationships can help enterprises acquire precious political resources, such as preferential tax policies (See 2009), fewer government regulations (Hillman 2005), and restricted competition (O’Hagan and Harvey 2000). As in other studies (Shan et al. 2008; Zhang et al. 2009), the SOEs in the current sample exhibit lower total donation ratios than other ownership types, such as PEs (Table 4). Although SOEs seemingly might undertake social responsibility initiatives because of their ownership type, the reality does not support this prediction. Ultimate controllers willingly disrupt good political-business relationships, despite the potential benefits of political (Neiheisel 1994; Sánchez 2000) and strategic (Brammer and Millington 2006; Hess et al. 2002; Saiia 2002; Saiia et al. 2003; Sánchez 2000; Smith and Stodghill 1994; Vidaver-Cohen and Altman 2000) corporate philanthropy. Top managers of SOEs also are unlikely to donate in pursuit of managerial utility (Atkinson and Galaskiewicz 1988; Galaskiewicz 1997; Haley 1991). In China’s emerging market, SOEs operate quite differently than other ownership types (e.g., PEs).

Different types of ownership property also account for distinct ownership structures and operational circumstances, principles, and objectives, all of which combine into unique corporate governance and management mechanisms (Tan 2002). Corporate philanthropy strategies are diversified as well. For example, the VR and CFR of the ultimate controlling shareholders of SOEs are higher than those in PEs, but the *Dev* is lower (1 % significance).

Table 3 Effects of VR, CFR, and their deviation on corporate philanthropy

Variables	<i>Donin</i>			<i>Cdonin</i>		
	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
<i>Y3</i>	-0.070* (-1.857)	-0.072* (-1.902)	-0.073* (-1.937)	-0.068* (-1.872)	-0.069* (-1.909)	-0.071** (-1.983)
<i>Y4</i>	-0.069** (-1.997)	-0.070** (-2.020)	-0.070** (-2.034)	-0.071** (-2.170)	-0.072** (-2.187)	-0.073** (-2.224)
<i>Y5</i>	-0.031 (-0.817)	-0.030 (-0.806)	-0.029 (-0.773)	-0.029 (-0.805)	-0.028 (-0.790)	-0.027 (-0.751)
<i>Y6</i>	-0.058*** (-4.939)	-0.058*** (-4.914)	-0.058*** (-4.885)	-0.061*** (-5.360)	-0.060*** (-5.321)	-0.060*** (-5.297)
<i>Y7</i>	-0.048*** (-4.431)	-0.048*** (-4.422)	-0.047*** (-4.392)	-0.047*** (-4.541)	-0.047*** (-4.529)	-0.046*** (-4.493)
<i>SOEs</i>	-0.039*** (-3.362)	-0.038*** (-3.159)	-0.035*** (-2.950)	-0.032*** (-2.901)	-0.031*** (-2.642)	-0.028** (-2.468)
<i>ROE</i>	0.000 (1.496)	0.000 (1.387)	0.000 (1.441)	0.000 (1.395)	0.000 (1.257)	0.000 (1.313)
<i>Cash</i>	-0.010* (-1.696)	-0.010 (-1.643)	-0.010 (-1.567)	0.007 (0.411)	0.009 (0.560)	0.011 (0.705)
<i>Tax</i>	0.008 (0.468)	0.010 (0.592)	0.011 (0.698)	-0.011* (-1.784)	-0.010* (-1.727)	-0.009 (-1.617)
<i>Direct</i>	0.024** (2.235)	0.024** (2.240)	0.025** (2.259)	0.021** (2.035)	0.021** (2.050)	0.022** (2.060)
<i>DTA</i>	-0.000 (-1.609)	-0.000 (-1.500)	-0.000 (-1.379)	-0.000* (-1.722)	-0.000 (-1.589)	-0.000 (-1.427)
<i>Msh</i>	0.000 (0.196)	0.000 (0.281)	0.000 (0.516)	0.000 (0.296)	0.000 (0.439)	0.000 (0.674)
<i>Duality</i>	0.013 (0.837)	0.014 (0.898)	0.012 (0.784)	0.016 (1.122)	0.017 (1.198)	0.015 (1.066)
<i>Lnta</i>	-0.004 (-0.675)	-0.005 (-0.824)	-0.005 (-0.945)	-0.003 (-0.490)	-0.003 (-0.650)	-0.004 (-0.841)
<i>VR</i>	-0.001 (-1.613)			-0.001** (-2.097)		
<i>CFR</i>		-0.000 (-1.032)			-0.000 (-1.516)	
<i>Dev</i>			0.010** (2.056)			0.011** (2.488)
Constant	0.232** (2.061)	0.236** (2.089)	0.219* (1.938)	0.207* (1.920)	0.210* (1.936)	0.193* (1.788)
<i>R</i> ²	0.081	0.080	0.083	0.084	0.081	0.085
Adj <i>R</i> ²	0.066	0.064	0.068	0.068	0.066	0.070
<i>F</i>	5.338	5.227	5.456	5.501	5.349	5.630
<i>N</i>	921	921	921	921	921	921

t in brackets

* Significant at 0.10, ** significant at 0.05, *** significant at 0.01

As Table 5 shows, the greater the VR of ultimate controlling shareholder in SOEs the lower the total donation and charitable donation ratios. Ultimate controlling

shareholders of A-share listed SOEs are not willing to donate using assets or resources they control, in support of H1. Yet CFR and the deviation of VR and CFR in SOEs

Table 4 Comparison of VR, CFR, and Dev of ultimate controlling shareholders in SOEs versus PEs

Variables	Type	N	Mean	Std. deviation	Std. error mean	t	Sig. (2-tailed)	Mean difference	Std. error difference
VR	SOEs	830	39.7835	14.45728	0.50182	6.289	0.000	6.40161	1.01795
	PEs	268	33.3819	14.58599	0.89098				
CFR	SOEs	830	35.6277	15.85722	0.55041	11.043	0.000	12.23983	1.10841
	PEs	268	23.3879	15.52217	0.94817				
Dev	SOEs	830	1.2574	0.64469	0.02238	-7.198	0.000	-0.73259	0.10178
	PEs	268	1.9900	1.62538	0.09929				

Table 5 Effects of VR, CFR, and their deviation CFR on corporate philanthropy in SOEs

Variables	Donin			Cdonin		
	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
Y3	-0.049 (-1.285)	-0.052 (-1.357)	-0.058 (-1.519)	-0.049 (-1.285)	-0.052 (-1.357)	-0.058 (-1.519)
Y4	-0.052 (-1.559)	-0.054 (-1.614)	-0.057* (-1.724)	-0.052 (-1.559)	-0.054 (-1.614)	-0.057* (-1.724)
Y5	-0.046 (-1.207)	-0.046 (-1.215)	-0.049 (-1.279)	-0.046 (-1.207)	-0.046 (-1.215)	-0.049 (-1.279)
Y6	-0.045*** (-3.606)	-0.045*** (-3.589)	-0.046*** (-3.678)	-0.045*** (-3.606)	-0.045*** (-3.589)	-0.046*** (-3.678)
Y7	-0.033*** (-2.903)	-0.033*** (-2.885)	-0.033*** (-2.889)	-0.033*** (-2.903)	-0.033*** (-2.885)	-0.033*** (-2.889)
ROE	0.000 (1.191)	0.000 (1.119)	0.000 (1.136)	0.000 (1.198)	0.000 (1.129)	0.000 (1.143)
Cash	0.001 (0.204)	0.002 (0.291)	0.002 (0.361)	0.001 (0.195)	0.002 (0.277)	0.002 (0.347)
Tax	-0.001 (-0.047)	0.002 (0.113)	0.003 (0.166)	0.000 (0.006)	0.003 (0.158)	0.003 (0.213)
Direct	0.007 (0.556)	0.007 (0.580)	0.006 (0.465)	0.007 (0.596)	0.008 (0.622)	0.006 (0.512)
DTA	-0.000 (-1.364)	-0.000 (-1.189)	-0.000 (-1.118)	-0.000 (-1.419)	-0.000 (-1.255)	-0.000 (-1.181)
Msh	-0.001 (-0.197)	-0.000 (-0.018)	0.000 (0.054)	-0.000 (-0.159)	0.000 (0.011)	0.000 (0.086)
Duality	0.054*** (3.045)	0.057*** (3.181)	0.059*** (3.278)	0.055*** (3.137)	0.058*** (3.268)	0.059*** (3.357)
Lnta	0.002 (0.273)	0.000 (0.054)	-0.001 (-0.202)	0.001 (0.154)	-0.000 (-0.050)	-0.002 (-0.307)
VR	-0.001* (-1.897)			-0.001* (-1.830)		
CFR		-0.000 (-1.093)			-0.000 (-1.092)	
Dev			-0.005 (-0.616)			-0.004 (-0.539)
Constant	0.076 (0.631)	0.085 (0.698)	0.108 (0.896)	0.088 (0.739)	0.096 (0.799)	0.118 (0.988)
R ²	0.053	0.050	0.048	0.053	0.050	0.048
Adj R ²	0.033	0.029	0.028	0.032	0.029	0.028
F	2.597	2.416	2.355	2.580	2.418	2.351
N	663	663	663	663	663	663

t in brackets

* Significant at 0.10,
 ** significant at 0.05,
 *** significant at 0.01

Table 6 Effects of VR, CFR, and their deviation on corporate philanthropy in PEs

Variables	<i>Donin</i>			<i>Cdonin</i>		
	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
<i>Y3</i>	-0.111 (-0.661)	-0.109 (-0.646)	-0.089 (-0.537)	-0.127 (-0.831)	-0.116 (-0.758)	-0.096 (-0.632)
<i>Y4</i>	-0.115 (-0.684)	-0.114 (-0.679)	-0.097 (-0.580)	-0.128 (-0.835)	-0.120 (-0.789)	-0.100 (-0.660)
<i>Y5</i>	0.068 (0.687)	0.064 (0.644)	0.067 (0.690)	0.061 (0.675)	0.055 (0.609)	0.066 (0.748)
<i>Y6</i>	-0.072** (-2.295)	-0.073** (-2.313)	-0.073** (-2.354)	-0.094*** (-3.303)	-0.096*** (-3.349)	-0.095*** (-3.376)
<i>Y7</i>	-0.064** (-2.331)	-0.064** (-2.343)	-0.064** (-2.356)	-0.061** (-2.466)	-0.062** (-2.515)	-0.062** (-2.522)
<i>ROE</i>	0.000 (0.524)	0.000 (0.553)	0.000 (0.789)	0.000 (0.634)	0.000 (0.568)	0.000 (0.760)
<i>Cash</i>	-0.100*** (-4.417)	-0.100*** (-4.430)	-0.099*** (-4.428)	-0.099*** (-4.794)	-0.099*** (-4.811)	-0.097*** (-4.781)
<i>Tax</i>	0.064 (0.964)	0.066 (0.994)	0.081 (1.232)	0.053 (0.877)	0.060 (0.994)	0.076 (1.261)
<i>Direct</i>	0.081*** (3.029)	0.081*** (3.059)	0.078*** (2.958)	0.066*** (2.713)	0.067*** (2.751)	0.061** (2.542)
<i>DTA</i>	-0.001 (-1.214)	-0.001 (-1.171)	-0.001 (-1.188)	-0.001 (-1.456)	-0.001 (-1.346)	-0.001 (-1.431)
<i>Msh</i>	-0.000 (-0.290)	-0.000 (-0.067)	0.000 (0.336)	-0.000 (-0.176)	0.000 (0.298)	0.000 (0.452)
<i>Duality</i>	-0.027 (-0.801)	-0.026 (-0.786)	-0.031 (-0.938)	-0.023 (-0.754)	-0.023 (-0.758)	-0.030 (-0.989)
<i>Lnta</i>	-0.009 (-0.572)	-0.009 (-0.594)	-0.006 (-0.385)	-0.005 (-0.360)	-0.007 (-0.484)	-0.003 (-0.230)
<i>VR</i>	-0.000 (-0.204)			-0.001 (-1.218)		
<i>CFR</i>		-0.000 (-0.537)			-0.001 (-1.479)	
<i>Dev</i>			0.015** (2.101)			0.016** (2.590)
Constant	0.348 (1.101)	0.355 (1.125)	0.238 (0.752)	0.302 (1.051)	0.324 (1.130)	0.185 (0.643)
<i>R</i> ²	0.208	0.209	0.226	0.235	0.238	0.255
Adj <i>R</i> ²	0.151	0.152	0.170	0.179	0.182	0.201
<i>F</i>	3.609	3.632	4.004	4.216	4.282	4.701
<i>N</i>	207	207	207	207	207	207

t in brackets

* Significant at 0.10,
 ** significant at 0.05,
 *** significant at 0.01

have no significant influences on corporate philanthropic behaviors. In contrast, as Table 6 illustrates, the greater the deviation of VR and CFR among PEs, the higher their total donation ratio. The ultimate controllers of PEs thus are more willing to donate if there is a severe deviation between VR and CFR, in support of H3. Finally, VR and CFR in PEs have no significant influences on corporate

philanthropic behaviors. That is, the ultimate controlling shareholders of SOEs are not motivated to donate money they control, but the ultimate controllers of PEs will make donations if the money comes from other people's (i.e., minority shareholders') pockets.

According to Table 4, 64.37 % (100 - CFR) of the total assets and resources available in SOEs comes from

Table 7 Corporate philanthropy and corporate performance

Variables	$Revinr_{t+1}$ Coef.	OPR_{t+1} Coef.	$Revinr_{t+1}$ Coef.	OPR_{t+1} Coef.	$Revinr_{t+1}$ Coef.	OPR_{t+1} Coef.
<i>Y3</i>	0.276** (2.362)	0.019 (0.371)	0.268** (2.286)	0.016 (0.312)	0.289** (2.474)	0.023 (0.462)
<i>Y4</i>	0.146 (1.365)	0.004 (0.095)	0.143 (1.325)	0.005 (0.098)	0.154 (1.431)	0.008 (0.174)
<i>Y5</i>	0.122 (0.980)	0.066 (1.225)	0.121 (0.965)	0.067 (1.231)	0.124 (0.993)	0.066 (1.226)
<i>Y6</i>	0.161*** (4.290)	0.039** (2.402)	0.158*** (4.200)	0.040** (2.472)	0.160*** (4.265)	0.040** (2.452)
<i>Y7</i>	0.088** (2.550)	-0.010 (-0.662)	0.086** (2.477)	-0.009 (-0.614)	0.088** (2.528)	-0.010 (-0.651)
<i>SOEs</i>	0.029 (0.818)	-0.028* (-1.799)	0.014 (0.361)	-0.036** (-2.199)	0.036 (0.977)	-0.030* (-1.892)
<i>Cash</i>	-0.035* (-1.830)	-0.003 (-0.317)	-0.035* (-1.816)	-0.003 (-0.317)	-0.034* (-1.800)	-0.002 (-0.303)
<i>Tax</i>	-0.099 (-1.354)	0.003 (0.095)	-0.099 (-1.358)	0.004 (0.125)	-0.115 (-1.578)	-0.003 (-0.103)
<i>Direct</i>	0.055 (1.622)	0.041*** (2.810)	0.056* (1.648)	0.041*** (2.765)	0.057* (1.681)	0.042*** (2.860)
<i>DTA</i>	0.001 (1.349)	-0.001*** (-4.400)	0.001 (1.274)	-0.001*** (-4.445)	0.000 (1.195)	-0.001*** (-4.574)
<i>Msh</i>	0.001 (0.777)	0.000 (0.174)	0.001 (0.536)	-0.000 (-0.194)	0.001 (0.857)	-0.000 (-0.008)
<i>Duality</i>	-0.003 (-0.063)	0.001 (0.041)	-0.006 (-0.137)	-0.001 (-0.053)	-0.002 (-0.049)	0.001 (0.065)
<i>Lnta</i>	0.020 (1.304)	0.026*** (3.921)	0.020 (1.296)	0.025*** (3.844)	0.025* (1.669)	0.027*** (4.256)
<i>Donin</i>	0.365*** (3.639)	0.164*** (3.768)			0.366*** (3.631)	
<i>Cdonin</i>			0.320*** (3.062)	0.182*** (4.032)		0.184*** (4.050)
<i>VR</i>	0.002* (1.794)	0.001* (1.729)				
<i>CFR</i>			0.002* (1.867)	0.001** (2.254)		
<i>Dev</i>					-0.008 (-0.576)	-0.010 (-1.510)
Constant	-0.496 (-1.554)	-0.483*** (-3.491)	-0.461 (-1.438)	-0.466*** (-3.357)	-0.520 (-1.614)	-0.472*** (-3.377)
R^2	0.047	0.075	0.043	0.079	0.044	0.076
Adj R^2	0.032	0.060	0.028	0.064	0.029	0.061
F	3.130	5.145	2.871	5.410	2.929	5.208
N	968	967	968	967	968	967

 t in brackets

* Significant at 0.10,
** significant at 0.05,
*** significant at 0.01

minority shareholders; in PEs, this level reaches 76.61 %. The deviation of VR and CFR ($Dev = 1.990$) of the ultimate controllers of PEs is 58.26 % higher than that of SOEs, such that the ultimate controllers of PEs control 1.990 units of capital for every 1 unit of capital investment. Thus, PEs have more type II agency problems than SOEs,¹⁰

and their ultimate controllers have greater motivation to donate money obtained from small- and medium-sized

¹⁰ La Porta et al. (1999) and Claessens et al. (2000) indicate that deviations of VR and CFR are easy to find in family-controlled enterprises.

Table 8 Effects of VR, CFR, and their deviation on corporate philanthropy in 2008

Variables	<i>Donin</i>			<i>Cdonin</i>		
	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
<i>SOEs</i>	-0.053*** (-2.885)	-0.051*** (-2.640)	-0.049*** (-2.662)	-0.054*** (-2.992)	-0.051*** (-2.701)	-0.049*** (-2.743)
<i>ROE</i>	0.000 (1.051)	0.000 (0.939)	0.001 (1.278)	0.000 (1.074)	0.000 (0.961)	0.001 (1.318)
<i>Cash</i>	-0.082*** (-4.561)	-0.082*** (-4.531)	-0.079*** (-4.443)	-0.082*** (-4.700)	-0.082*** (-4.674)	-0.079*** (-4.582)
<i>Tax</i>	-0.022 (-0.589)	-0.017 (-0.455)	-0.007 (-0.189)	-0.020 (-0.530)	-0.015 (-0.414)	-0.004 (-0.124)
<i>Direct</i>	0.050*** (2.862)	0.049*** (2.799)	0.044** (2.550)	0.050*** (2.985)	0.050*** (2.937)	0.044*** (2.670)
<i>DTA</i>	-0.001*** (-3.270)	-0.001*** (-3.156)	-0.001*** (-2.916)	-0.002*** (-3.433)	-0.001*** (-3.325)	-0.001*** (-3.072)
<i>Msh</i>	-0.000 (-0.529)	-0.000 (-0.346)	-0.000 (-0.102)	-0.001 (-0.819)	-0.000 (-0.604)	-0.000 (-0.361)
<i>Duality</i>	-0.020 (-0.838)	-0.016 (-0.680)	-0.023 (-0.955)	-0.017 (-0.733)	-0.013 (-0.575)	-0.020 (-0.862)
<i>Lnta</i>	0.001 (0.105)	0.000 (0.018)	-0.001 (-0.100)	-0.000 (-0.034)	-0.001 (-0.101)	-0.002 (-0.237)
<i>SCP</i>	0.010 (0.262)	0.011 (0.293)	0.016 (0.430)	0.012 (0.318)	0.013 (0.343)	0.018 (0.490)
<i>VR</i>	-0.001** (-2.394)			-0.001** (-2.427)		
<i>CFR</i>		-0.001* (-1.783)			-0.001* (-1.924)	
<i>Dev</i>			0.017*** (2.932)			0.017*** (3.078)
Constant	0.234 (1.418)	0.223 (1.340)	0.179 (1.077)	0.256 (1.598)	0.243 (1.506)	0.199 (1.237)
<i>R</i> ²	0.164	0.158	0.171	0.174	0.169	0.183
Adj <i>R</i> ²	0.138	0.131	0.145	0.148	0.143	0.157
<i>F</i>	6.161	5.888	6.467	6.618	6.381	7.006
<i>N</i>	357	357	357	357	357	357

t in brackets. Noting the location of the Wenchuan Earthquake, the dummy variable SCP equals 1 for companies registered in Sichuan province and 0 for companies not located in Sichuan province
 * Significant at 0.10,
 ** significant at 0.05,
 *** significant at 0.01

shareholders. Details of these empirical results appear in Tables 5 and 6.

Corporate Philanthropy and Corporate Performance

Corporate philanthropy boosts corporate performance in capital markets in Western countries (Brammer et al. 2006; Orlitzky et al. 2003; Saiia 2002; Sánchez 2000; Wokutch and Spencer 1987). The regression results of Model IV suggest it does so in China as well, in support of H4 (10 % significance). The total donations ratio in period *t* is significantly and positively associated with the operating profit and revenue growth ratios in period *t* + 1. However, the preceding tests already demonstrated that higher VR for

ultimate controlling shareholders (especially in SOEs) lowers the total donation and charitable donation ratios; meanwhile, as Table 7 indicates, the VR of ultimate controlling shareholders relates negatively to profit and revenue growth ratios. That is, ultimate controlling shareholders are unwilling to make donations with money controlled by them in an effort to improve corporate performance. Beset by type II agency problems and with their strong control rights, ultimate controlling stakeholders are motivated to donate only if there is a severe deviation in VR and CFR. In this case, they donate other people’s money, as a kind of insurance or camouflage for their tunneling (Almeida and Wolfenzon 2006; Attig et al. 2003; Johnson et al. 2000; La Porta et al. 1999, 2000).

Table 9 Effects of VR, CFR, and their deviation on corporate philanthropy in SOEs in 2008

Variables	<i>Donin</i>			<i>Cdonin</i>		
	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
<i>ROE</i>	0.000 (0.776)	0.000 (0.715)	0.000 (0.792)	0.000 (0.748)	0.000 (0.684)	0.000 (0.758)
<i>Cash</i>	0.110** (2.192)	0.115** (2.290)	0.111** (2.207)	0.103** (2.133)	0.109** (2.234)	0.105** (2.157)
<i>Tax</i>	-0.005 (-0.106)	-0.001 (-0.031)	0.011 (0.249)	0.002 (0.046)	0.004 (0.100)	0.016 (0.373)
<i>Direct</i>	0.036* (1.780)	0.036* (1.753)	0.031 (1.533)	0.035* (1.803)	0.035* (1.791)	0.031 (1.579)
<i>DTA</i>	-0.001** (-2.113)	-0.001** (-2.000)	-0.001* (-1.929)	-0.001** (-2.377)	-0.001** (-2.273)	-0.001** (-2.189)
<i>Msh</i>	-0.005 (-0.673)	-0.004 (-0.550)	-0.003 (-0.442)	-0.005 (-0.620)	-0.004 (-0.507)	-0.003 (-0.389)
<i>Duality</i>	0.011 (0.377)	0.015 (0.500)	0.014 (0.477)	0.013 (0.435)	0.016 (0.556)	0.016 (0.529)
<i>Lnta</i>	0.001 (0.076)	-0.000 (-0.033)	-0.003 (-0.322)	-0.000 (-0.015)	-0.001 (-0.104)	-0.003 (-0.395)
<i>SCP</i>	0.020 (0.460)	0.021 (0.489)	0.026 (0.607)	0.023 (0.556)	0.024 (0.577)	0.029 (0.699)
<i>VR</i>	-0.001* (-1.665)			-0.001 (-1.614)		
<i>CFR</i>		-0.001 (-1.156)			-0.001 (-1.192)	
<i>Dev</i>			-0.000 (-0.003)			0.001 (0.103)
Constant	0.134 (0.761)	0.131 (0.741)	0.158 (0.881)	0.150 (0.884)	0.146 (0.854)	0.170 (0.979)
R^2	0.078	0.073	0.067	0.085	0.080	0.075
Adj R^2	0.039	0.033	0.028	0.046	0.041	0.035
F	2.007	1.853	1.710	2.188	2.061	1.908
N	248	248	248	248	248	248

t in brackets. Noting the location of the Wenchuan Earthquake, the dummy variable SCP equals 1 for companies registered in Sichuan province and 0 for companies not located in Sichuan province

* Significant at 0.10,
** significant at 0.05,
*** significant at 0.01

Furthermore, the benefits gained through philanthropic behaviors must be split among all shareholders, such that ultimate controllers earn diluted shares of the benefits.

The regression results for the control variables indicate that SOE status and cash flow levels relate negatively to the operating profit ratio in the following year. Direct product accessibility to customers, leverage, and company scales instead relate positively to operating profit and revenue growth ratios (10 % significance). Finally, managerial shareholding, leadership structure, and the income tax ratio have no significant impacts on these ratios.

Discussion and Robustness Test: In the Aftermath of the Wenchuan Earthquake

Most existing evidence regarding donation behaviors by Chinese A-share listed companies has focused on

responses to a 2008 natural disaster (Shan et al. 2008; Zhang et al. 2009). The regression results of dummy variable Y_i suggest that the Wenchuan Earthquake exerted a significant impact on corporate philanthropy. For example, the mean values of *Donin* and *Cdonin* were 0.100 and 0.097 in 2008 but 0.042 and 0.039, respectively, between 2003 and 2007.

According to Table 8, the regression results with *Donin* and *Cdonin* as the dependent variables support H1–H3: The lower the VR and CFR and the higher their deviation, the greater the total donation ratio. Even in catastrophic situations, ultimate controlling shareholders remained unwilling to engage in corporate philanthropy with assets or resources they controlled or owned. They made donations only if there was a substantial deviation of VR and CFR. Although the Wenchuan Earthquake led to an increase in the total donation ratio, the impacts of VR, CFR, and their deviation on corporate philanthropy decisions remained

Table 10 Effects of VR, CFR, and their deviation on corporate philanthropy in PEs in 2008

Variables	<i>Donin</i>			<i>Cdonin</i>		
	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
<i>ROE</i>	0.001 (0.730)	0.001 (0.762)	0.001 (1.079)	0.001 (0.777)	0.001 (0.817)	0.001 (1.115)
<i>Cash</i>	-0.109*** (-4.828)	-0.109*** (-4.861)	-0.107*** (-4.815)	-0.107*** (-4.839)	-0.108*** (-4.878)	-0.106*** (-4.821)
<i>Tax</i>	-0.131 (-1.301)	-0.096 (-0.963)	-0.045 (-0.449)	-0.130 (-1.308)	-0.095 (-0.963)	-0.044 (-0.449)
<i>Direct</i>	0.117*** (3.185)	0.110*** (3.027)	0.085** (2.323)	0.117*** (3.249)	0.111*** (3.091)	0.086** (2.378)
<i>DTA</i>	-0.002* (-1.753)	-0.002 (-1.649)	-0.002 (-1.618)	-0.002* (-1.712)	-0.001 (-1.606)	-0.001 (-1.575)
<i>Msh</i>	-0.001 (-0.742)	-0.000 (-0.003)	-0.000 (-0.081)	-0.001 (-1.028)	-0.000 (-0.236)	-0.000 (-0.363)
<i>Duality</i>	-0.032 (-0.731)	-0.028 (-0.646)	-0.042 (-0.967)	-0.030 (-0.688)	-0.026 (-0.603)	-0.040 (-0.919)
<i>Lnta</i>	0.001 (0.040)	-0.002 (-0.115)	0.007 (0.333)	-0.002 (-0.112)	-0.006 (-0.273)	0.004 (0.177)
<i>SCP</i>	0.020 (0.250)	0.022 (0.273)	0.028 (0.355)	0.021 (0.266)	0.023 (0.288)	0.029 (0.373)
<i>VR</i>	-0.003** (-2.159)			-0.003** (-2.205)		
<i>CFR</i>		-0.003** (-2.225)			-0.003** (-2.310)	
<i>Dev</i>			0.022*** (2.763)			0.022*** (2.759)
Constant	0.301 (0.702)	0.328 (0.765)	0.015 (0.036)	0.364 (0.862)	0.392 (0.930)	0.081 (0.192)
<i>R</i> ²	0.326	0.328	0.348	0.333	0.337	0.353
Adj <i>R</i> ²	0.245	0.248	0.270	0.253	0.257	0.275
<i>F</i>	4.019	4.059	4.436	4.144	4.211	4.534
<i>N</i>	94	94	94	94	94	94

t in brackets. Noting the location of the Wenchuan Earthquake, the dummy variable SCP equals 1 for companies registered in Sichuan province and 0 for companies not located in Sichuan province

* Significant at 0.10,
** significant at 0.05,
*** significant at 0.01

unchanged. The results thus demonstrate the robustness of the preceding models and empirical results.

Tables 9 and 10 further reveal that the higher the VR of ultimate controlling shareholders in SOEs, the lower the total donation ratio, in support H1, though this finding also indicates a smaller impact of the VR of ultimate controlling shareholder in SOEs on charitable donations (10 % significance). The influence that VR, CFR, and their deviation have on the total donation ratio in PEs aligns with the prediction that, after the Wenchuan Earthquake, the ultimate controllers of A-share listed PEs offered more donations than those of SOEs, though they remained unwilling to donate assets or resources they controlled or owned and engaged in corporate philanthropy only on the condition that most assets or resources came from minority shareholders. The resources provided by small- and medium-sized shareholders thus were expropriated for individual interests.

Conclusions

In an effort to offer more fine-tuned insights about the relationship between a micro-governance mechanism and corporate philanthropic behaviors, this article takes ultimate control theory and type II agency problems into account and uses empirical evidence gathered between 2003 and 2008 from A-share listed companies in China. The analysis examines the influence of VR, CFR, and their deviation on corporate philanthropic behaviors (i.e., donations), and explores the impact of ultimate control rights and Type II agency problems on corporate philanthropy, as well as the impacts of philanthropic behavior on corporate performance. A further assessment considers the potential effects of the Wenchuan Earthquake. This empirical evidence offers a more comprehensive view: In China’s emerging market, the ultimate controlling

shareholders of SOEs are not motivated to donate using corporate assets or resources they control. The ultimate controllers of PEs instead will donate if most of the assets or resources provided come from minority shareholders (i.e., severe deviation of VR and CFR). Even after the Wenchuan Earthquake, ultimate controlling shareholders of SOEs were unwilling to donate using corporate resources they controlled; The ultimate controllers of PEs were either unwilling to donate assets or resources they controlled or owned, but donated more minority shareholders' resources when they encountered a severe deviation of VR and CFR. In so doing, they managed to enhance managerial utility, establish and maintain stable political-commercial relationships, gain political legitimacy, and improve the corporation's reputation and performance, which in turn helped minimize market supervision and disguised their involvement in the tunneling effect. Although corporate philanthropic behavior thus enhanced corporate growth and profitability, ultimate controlling shareholders would not act to improve corporate performance by donating their own money. Despite these seemingly disappointing findings, there is still reason for an optimistic perspective, in that the process of institutional reform in the past decade has prompted more firms and executives in China to learn to function as good "corporate citizens." Therefore, business ethics should grow and coevolve with their greater economic growth and institutional transition (Tan and Tan 2005).

On the basis of these conclusions, this study recommends that government develop more sensible policies and offer incentives for corporate philanthropy, such as strengthening disclosure rules, supervising social responsibility, increasing tax allowances, improving awareness of corporate philanthropy, and encouraging strategic philanthropic behaviors. In contrast, the practice of "packaging" firms for initial public offerings, by separating valuable businesses from less desirable units, should be discouraged. Listing the entire business identity can help limit type II agency problems. Finally, supervision over the pyramid structure and deviations of VR and CFR in PEs should be strengthened, to avoid allowing ultimate controllers of PEs from gaining private benefits by donating only the money provided by small- and medium-sized shareholders.

As in any study, a note on the research limitations is in order. First, this study focused on the impacts of VR, CFR, and their deviation on corporate philanthropic behaviors, but other governance mechanisms also could influence corporate philanthropy. Further, research should focus more closely on these effects. Second, the number of A-share listed companies that disclosed their total donations between 2003 and 2008 is equivalent to less than one-quarter of the total A-share listed companies. This percentage implies the potential for a selection bias, such that

only companies with positive donation records would disclose this information in their financial reports. Additional studies should seek to validate these results using a more comprehensive data set if and when such data become available. Third, additional influences on corporate philanthropic behaviors remain to be explored. The issues examined here, though insightful, are far from conclusive, and ongoing research should pursue additional validation.

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