

# Promotion Effects of Party Organization's Participation in Corporate Governance on Private Enterprises' Philanthropic Giving —An Empirical Test from the COVID-19 Pandemic

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**Abstract:** Corporate philanthropy is increasingly being valued by the public and academia. Based on data of Chinese listed private enterprises' philanthropic giving during the COVID-19 pandemic, this paper investigates the impact of Party organization's participation in corporate governance on corporate philanthropy. The results show that the COVID-19 pandemic accelerates private enterprises' philanthropy behavior greatly. Further empirical test finds private enterprises that have established Party organizations have a stronger intention to give and higher giving level; moreover, when Chairman of the board serves as Secretary of the Party organization, the private enterprises have a stronger intention to give and more generous philanthropy. The results reveal that grass-roots Party organizations can promote private enterprises' social performances, under the background of COVID-19 event, which provides suggestions for strengthening government institution construction and Party building activities in private enterprises in China.

**Keywords:** Party organizations construction, corporate governance, corporate philanthropy, private enterprises

## 1. Introduction

In recent years, more and more non-public enterprises are trying to establish Party organizations, and the Party construction activities in private enterprises have developed rapidly. According to the "2018 Communist Party of China Inner Party Statistical Bulletin" released by the Organization Department of the Central Committee of the CPC, 1.585 million legal non-public enterprises had established Party organizations by the end of 2018, accounting for 30.8% of all non-public enterprises. Establishing Party organizations in private enterprises is not only an important way to ensure the implementation of the Party policy, but also an effective means for private entrepreneurs to pursue a correct political direction. Then does this institutional arrangement in China have positive effects? Can it promote private enterprises to take more social responsibilities in the public crisis event?

With the outbreak of COVID-19 in 2020, a lot of private enterprises actively participated in fighting against the pandemic. Data from Corporate Social Responsibility Blue Book (2020) published by Chinese Academy of Social Sciences shows that 4061 enterprises donated a total of 35.14 billion yuan during the COVID-19 pandemic, of which private enterprises donated 21.09 billion yuan, taking up 60% of all donations. Chinese philanthropy has reached a new milestone peak as well. Based on this background, this paper is aimed to examine the impact of Party organizations, as a unique institution with Chinese characteristics, on private enterprises' philanthropic behavior under COVID-19. The findings can provide empirical evidences for the motivation of corporate philanthropy from the perspective of Party construction.

## 2. Literature Review

### 2.1 Motivations of corporate philanthropic giving

Campbell [1] clarified four views on motivations of corporate philanthropy: strategic motivation, altruism, political motivation and managerial utility. Porter's [2] "strategic philanthropy" viewpoint argues that enterprises who make "mutually beneficial" strategic investments that can bring both social

and economic benefits can achieve a win-win results in both social and financial performance. Tian Xueying et al. [3] revealed the altruistic motivation of corporate philanthropy and found that corporate philanthropy can increase social welfare. In addition, corporate giving may be out of enterprises' needs to build external political ties, so as to obtain an advantageous position in the competition of government resources [4].

## ***2.2 The effects of Party organization's participation in the governance of private enterprises***

Existing research found that the participation of Party organizations in the governance of private enterprises had some positive effects on improving corporate performance [5], restraining the executive corruption [6], inhibiting the tone manipulation of annual reports [7], and alleviating the negative impact of economic policy uncertainty on corporate investments [8]. It also has a promoting impact on corporate social behaviors, for example, it can improve corporate level of social responsibility [9], suppress corporate tax avoidance [10], encourage enterprises to attach more attention to environmental protection [11], and promote their participation in the government 'Guangcai Program' [12].

## ***2.3 Party organization's participation in corporate governance and private enterprises' philanthropic giving***

When it comes to the relationship between Party organization's participation in governance and corporate philanthropic giving, Zheng Dengjin et al. [13] found that the greater the influence of the Party organization, the greater corporate social donations, and significantly higher than the average donation level of the same industry and region. Yu Wei [14] also confirmed that the participation of Party organizations in private enterprises' governance improved the size of charitable donations. The research results of Cheng Haiyan et al. [15] demonstrated that the participation of CPC committee in corporate governance through the "two-way entry, cross-appointment" system can promote corporate donation behavior.

Although several studies have shed light on the motivation of corporate philanthropy and the effects of Party organization construction in private enterprises, none of them examines their relationship and mechanism under COVID-19 pandemic disaster event, which promoted corporate philanthropic giving greatly. This disaster event provides an opportunity to further this research topic. Based on the above context, this paper will explore the effect of the participation of Party organization in governance on the private enterprises' philanthropy.

## **3. Theoretical Hypothesis**

The governance of Chinese listed companies is quite different from companies in other countries. In China the government plays an important role in business activities, so there exists a mechanism between the establishment of Party organizations and private enterprises' philanthropic giving. First, Party organizations can internalize the spirit and ideal of Communist Party of China into corporate decisions making, which helps to promote corporate charitable donation. The "Party Constitution" clarifies that the Party's highest ideal is to realize communism. While implementing the Party's objective and principles, Party organizations in private enterprises internalize this value and concept into corporate behavior. By carrying out activities for Party members, the Party organization transfer the concept of 'dedication and altruism' to managers and encourage their spirit of utter devotion, thus promoting private enterprises' involvement in philanthropy. Second, by carrying out donation activities, corporate positive social image and good reputation can be established. For a long time, the heroic deeds of the revolutionary martyrs have been handed down from generation to generation and the deeds of Party members have been reported by mainstream media, which has strengthened the spirit of devotion of the Communist Party members. As grass-root Party organizations, private enterprises' Party organizations are supposed to implement Party's purposes and missions, so will promote enterprise to take more social responsibility. Based on the above analysis, the first hypothesis is proposed:

H1: The construction of Party organization can promote the philanthropic giving of private enterprises.

In China, the Party organizations in private enterprises have not been entitled legal power of enterprises' decision-making by the "Company Law". Different Party organizations with different power in private enterprises will have different influences on the allocation of enterprise resources, thus affecting corporate philanthropic giving. Wang Shuyang et al. [16] argued that when the private enterprise's chairman is a member of the Communist Party, the Party organization will be more involved

in corporate governance, and the cross appointment of chairman can ensure efficient governance of the enterprise, which exerts positive effects on corporate giving behavior. Therefore, the second hypothesis is proposed:

H2: The degree of Party organization's participation in corporate governance has a positive effect on private enterprises' philanthropy. The higher degree of participation in governance, the stronger intention to donate and the more philanthropic giving amount.

## 4. Research Design

### 4.1 Sample selection and data sources

The outbreak of COVID-19 pandemic exerts great improvement on corporate philanthropy, so we use the donation data of Chinese listed private companies during the pandemic in 2020 for analysis. This data was disclosed in corporate 2020 annual report. We get it from CSMAR database. The data on the Party organization's establishment was collected by manually searching for keywords, including "Party organization", "Party committee secretary", "branch secretary" and "Party building" in the annual reports, Sina Finance. Removing data-missing sample, 1840 observations were obtained. The value of other variables was from the CSMAR database. We use Stata16.0 to process and analyze the data.

### 4.2 Variable definition

#### 4.2.1 Explained variables

Two methods were used to measure corporate philanthropic giving: (1) Corporate intention to donate, which is a dummy variable. When the donation amount of the enterprise in the current year is greater than 0, the value is 1, otherwise it is 0. (2) The level of corporate donation, which is taken as the natural logarithm of the amount of philanthropic giving.

#### 4.2.2 Explanatory variables

Party organization's participation in corporate governance is measured in two ways: (1) Establishment of a Party organization, which is a dummy variable. If the company establishes a Party organization, the value is 1, otherwise it is 0. (2) The degree of Party organization participating in governance. If the chairman of board of director concurrently serves as a Secretary of the Party organization, the value is 1, otherwise it is 0.

#### 4.2.3 Control variables

Table 1: Variable Measurement

Type of variable	Name	Code	Variable measurement
Explained variables	Corporate intention to donate	DON1	The donation amount > 0, the value is 1, otherwise it is 0
	The level of corporate donation	DON2	The natural logarithm of the amount of corporate giving
Explanatory variables	Whether to establish a Party organization	Party	If the enterprise establishes a Party organization, the value is 1, otherwise it is 0
	The degree that Party organization participates in governance	Role	If the chairman serves as a Secretary of the Party committee, the value is 1, otherwise 0
Control variables	Ownership concentration	FIRST	Shareholding ratio of the largest shareholder
	Company size	SIZE	The natural logarithm of total assets
	Financial leverage	LEV	Total liabilities divided by total assets
	Return on equity	ROE	Net profit divided by total equity
	Company age	AGE	Years since the company was started

The following control variables were selected: ownership concentration (FIRST), company size (SIZE), debt level (LEV), return on equity (ROE) and business age (AGE). The variables measurement is shown in Table 1.

#### 4.3 Model setting

First, this paper constructs model (1) to test Hypothesis 1. Since corporate willingness to donate (DON1) is a dummy variable and the level of charitable donation (DON2) is a continuous variable, this paper uses the Logit model and the OLS model to test the samples respectively.

$$DON = \beta_0 + \beta_1 \text{Party} + \beta_2 \text{FIRST} + \beta_3 \text{SIZE} + \beta_4 \text{LEV} + \beta_5 \text{ROE} + \beta_6 \text{AGE} + \varepsilon \quad (1)$$

Further, this paper constructs model (2) to test the impact of the degree of Party organization's participation in governance on corporate philanthropy, using only a sub sample of private enterprises with Party organizations for regression analysis. The model design is as follows:

$$DON = \beta_0 + \beta_1 \text{Role} + \beta_2 \text{FIRST} + \beta_3 \text{SIZE} + \beta_4 \text{LEV} + \beta_5 \text{ROE} + \beta_6 \text{AGE} + \varepsilon \quad (2)$$

## 5. The Empirical Results

### 5.1 Descriptive statistics

The results of the descriptive statistics are shown in Table 2. The average value and standard deviation of DON1 are 0.789 and 0.408 respectively, while the mean value and standard deviation of DON2 is 10.715 and 5.801 respectively, indicating that 78.9% of private enterprises are involved in philanthropic giving and there is a significant difference in corporate giving level. The mean of Party is 0.589, meaning that nearly 60% of enterprises have set up Party organizations, which indicates that it has become more common for private enterprises to construct Party organizations in recent years.

Table 2: Descriptive statistics

Variable	Observations	Mean	Standard deviation	Minimum	Max
DON1	1840	0.789	0.408	0.000	1.000
DON2	1840	10.715	5.801	0.000	19.554
Party	1840	0.589	0.492	0.000	1.000
Role	1840	0.197	0.398	0.000	1.000
FIRST	1840	0.297	0.127	0.041	0.811
SIZE	1840	22.096	1.129	18.395	27.011
LEV	1840	0.410	0.187	0.014	0.990
ROE	1840	0.042	0.215	-1.916	2.379
AGE	1840	20.788	5.477	7.000	65.000

### 5.2 An overview of private enterprises' philanthropic giving in COVID-19 pandemic

Table 3 shows the donation amount of the sample enterprises. Among the 1,451 enterprises that participated in the donation, 113 enterprises donated more than 10 million yuan, with a total donation of 3625 million yuan, accounting for 63.38% of the total donation; 17 enterprises with a donation amount of more than 50 million yuan, accounting for 31.59% of the total donation amount. In addition, there are 5 companies who donate more than 100 million yuan, see table 4. The data shows that corporate donation amount is highly concentrated, that is, a few companies donate most of the money under the COVID-19.

Table 3: The philanthropic giving of private enterprises in COVID-19

Donation amount	Number of companies	Total donation amount/ million yuan	Proportion of total giving/%
≥10 million yuan	113	3625	63.38
≥50 million yuan	17	1807	31.59
≥100 million yuan	5	982	17.17

Table 4: The philanthropic giving more than 100 million in COVID-19

Company name	Stock Code	Industry code	Giving amount
Aier Eye Hospital	300015	Q83	311 million
Muyuan Foods	002714	A03	209 million
Wens Foodstuff	300498	A03	189 million
RiseSun Development	002146	K70	168 million
Hengrui Medicine	600276	C27	105 million

The industry code of this article is based on the "Guidelines for Industry Classification of Listed Companies", which is issued by the CSRC in 2012.

### 5.3 Regression results

Table 5 shows the regression results of model (1). In the Logit regression model, the regression coefficient of Party is 0.495, which is significant at the level of 1%, indicating that the establishment of Party organizations in private enterprises improves corporate willingness to donate. In the OLS regression model, the regression coefficient of explanatory variable is 1.533, which is significant at the level of 1%, which indicates that the establishment of private enterprises' Party organization is significantly positively correlated with the level of corporate giving. In conclusion, establishing Party organizations in private enterprises can effectively promote corporate philanthropy. Private enterprises with Party organizations having been established will donate more. Therefore, hypothesis 1 was verified.

Table 5: The establishment of Party organizations in private enterprises and corporate philanthropy

Variable	DONA1(Logit)	Dona2(OLS)
Party	0.495*** (4.00)	1.533*** (5.57)
Constant	-5.192*** (-3.61)	-16.147*** (-5.60)
Other variables	Control	Control
$\chi^2/F$	97.41	40.66
Pseudo/R <sup>2</sup>	0.051	0.118

\*, \*\*, \*\*\*are significant at the level of 10%, 5% and 1% respectively; Z value in parentheses for Logit models and T value in parentheses for OLS models

Further, to verify the degree of Party organization's involvement in governance on corporate philanthropy, we use the sub-sample of where Party organizations were set up. From Table 6, in the Logit model, the regression coefficient of Party organization's participation in governance (Role) is 0.575, which is significant at the level of 1%. In the OLS regression model, the regression coefficient is 1.104, which is significant at the level of 1%. It indicates that the participation of Party organizations in private enterprises' governance exerts a significantly positive influence on corporate giving. In other words, the higher the degree of Party organizations involving in corporate governance in private enterprises, the stronger desire to donate and more generous donation. Hypothesis 2 was verified.

Table 6: Party organizations' participation in governance and corporate philanthropic giving

Variable	DONA1(Logit)	Dona2(OLS)
Role	0.575*** (2.93)	1.104*** (3.30)
Constant	-2.094 (-1.08)	-10.865*** (-3.19)
Other variables	Control	Control
$\chi^2/F$	39.17	18.30
Pseudo/R <sup>2</sup>	0.041	0.093

### 5.4 Robustness test

This study further tests the robustness by replacing the explained variables to ensure the reliability of the results. We choose the ratio (DON3) of the actual charitable donation amount divided by operating income to measure level of philanthropic giving. Table 7 shows that the regression coefficients of explanatory variables are still positive significantly at the 1% level, which indicates the conclusions of this research are robust.

Table 7: Robustness test results

Variable	DONA3	DONA3
Party	0.258*** (3.74)	
Role		0.239*** (2.93)
Other variables	Control	Control
R <sup>2</sup>	0.030	0.027

## 6. Research Conclusions and Suggestions

Using the sample of Chinese listed private companies in 2020, this paper empirically investigates the function of Party organizations' participation in corporate governance in the philanthropy of private enterprises. The findings are as follows: (1) The COVID-19 pandemic accelerates private enterprises' philanthropy behavior greatly, under which the number of enterprises participating in philanthropic giving and the amount of donation have greatly increased. In 2020, 113 companies contribute 63.38% of the total donation of private enterprises, which demonstrates private enterprises' sense of responsibility. (2) This unique institutional arrangement of establishing Party organizations in private enterprises in China has a positive governance effect, it can encourage private enterprises to be willing to donate and make a more generous donation. (3) The role of the Party organization is related to its participation in corporate governance. When the chairman of the board of directors serves as a secretary of the Party committee as well, private enterprises will be more willing to donate and have a higher level of philanthropic giving.

Based on the above conclusions, this article puts forward the following suggestions: (1) Establishing Party organizations in non-public enterprises is a unique institutional arrangement with Chinese characteristics, which has played a positive role in promoting corporate donation to public crisis. This institution should be adhered to and improved, to ensure private enterprises maintain the correct political direction. (2) Party construction activities should be strengthened in private enterprises, which helps to promote enterprises to achieve High-Quality Development. (3) The power of Party organization has not been entitled by Chinese Company Law and other relevant laws, so the Party organization's influence on corporate decisions making is only a soft constraint. It is necessary to perfect laws and regulations of philanthropic giving, regulate the rules of the market economy and so promote the rapid development of Chinese philanthropy.

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