

# A literature review on the impact of charitable giving on corporate performance from a multi-dimensional perspective

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**Abstract:** *This paper summarizes the motivation of charitable donation and the mechanism of its economic consequences from multiple perspectives, divides the motivation of donation and the different mechanisms of economic consequences, and analyzes the existing relevant research. In this paper, the transmission chain and future research trends of motivational donation, donation behavior and economic consequences of charitable donation are obtained from multiple perspectives.*

**Keywords:** *Charitable donation, Donation motivation, Enterprise performance*

## 1. Introduction

Charitable donation, as an important part of corporate social responsibility, is a very attractive topic in both academic and practical fields. With the improvement of the market system, social responsibility has increasingly become the public's requirement and measurement standard for enterprises. Corporate charitable donation, as an important means to improve the socialist distribution system and promote the rationalization and fairness of income distribution, has also become a hot issue in policy. On August 17, 2021, the 10th meeting of the Financial and Economic Commission of the CPC Central Committee proposed "Building a basic institutional arrangement for coordinating primary distribution, redistribution and tertiary distribution". The organization's 20th National Congress further proposed to "build a coordinated system of primary distribution, redistribution and third distribution". In the new stage of development, where China has made significant and substantive progress in promoting high-quality economic development and common prosperity, we will incorporate the third distribution system into the overall design of the reform of the distribution system and make an in-depth study of such basic issues as the theoretical and practical basis, principles, theoretical breakthroughs, and policy priorities for the construction of the third distribution system under socialism with Chinese characteristics. It has important theoretical and practical value.

On the other hand, the outbreak of COVID-19 in 2020 had a huge impact on China's economy and society, yet many domestic enterprises actively donated money and materials during the epidemic. By April 4, 2020, 4,061 enterprises had donated a total of 35.14 billion yuan. This phenomenon is contrary to some theoretical expectations. According to the agency theory, charitable donation transfers valuable resources of enterprises and can only improve the social reputation of managers, which is a self-serving irrational behavior of managers, thus reducing the wealth of shareholders and having a negative impact on corporate performance. Charitable donations make enterprises consume profits and increase costs. Instead of being valuable to enterprises, they may fall into the trap of agency costs. So whether the enterprise "grasp the nettle" in order to achieve a specific purpose and effect. The consideration of this problem needs to start from the results, and seek the impact of corporate charitable donation on corporate performance and its path[1-5].

## 2. Review of donation motivation

### 2.1. Egoistic view

In recent years, with the continuous development and improvement of economics, more and more people advocate the basic hypothesis of "rational economic man", believing that people are rational and will choose to move towards their own side when faced with any choice. Similarly, as a "corporate

citizen", they are rational in their economic activities, aiming to enhance their own value and using charitable donations to achieve their own goals in order to maximize profits. So even if there is no spare money, companies will still donate. Pava and Krause (1996) found that some board members supported organizations to fulfill community obligations. They believed that if enterprises actively undertook social responsibilities, the significance or value of such activities in the whole economic environment would not be weakened. Therefore, they will actively make charitable donations and get benefits from this behavior. William O (2006) studied corporate philanthropy with empirical analysis and concluded that, to some extent, donations are made for the purpose of advertising. Branco and Rodrigues (2006) argued that in order to obtain internal and external resources needed for development, enterprises would achieve this goal by undertaking social responsibilities, through charitable donations.

## **2.2. Altruism view**

Although it is based on the economic hypothesis that enterprises are very rational, any economic behavior they make is for the purpose of obtaining profits. However, with the continuous progress of society, enterprises that only aim at profit cannot survive in the real economic environment. Some enterprises will properly assume social responsibilities and pay back the stakeholders while getting benefits. Campbell (2002) studied the philanthropy of British enterprises from 1985 to 2000 and found that: Some corporate donations are purely for the purpose of feeding society, altruistic behavior without any expectation of return, and have nothing to do with economic profit. Berman (1999) mainly studied the importance of stakeholders. He believed that enterprises should take the interests of stakeholders into consideration in the management model. Shareholders and managers would have a sense of responsibility to realize the common prosperity of stakeholders, so they would take the initiative to shoulder social responsibilities. Yan Bo, Wang Ran and Zhang Yaohui (2009) analyzed the market reaction effect of donations by listed pharmaceutical companies and found that charitable donations by enterprises are partly motivated by the increasing social expectations of citizens on enterprises, which is an altruistic behavior and a return to the society. Tian Xueying (2009) believes that the philanthropy of Chinese enterprises is still in the early stage of growth, so we should learn more from and learn from the more mature charitable concepts of foreign companies. The charitable donation behavior should pay attention to the effect and expect to achieve the goal. Lu Zhengwen and Liu Chunlin (2012) believe that, on the premise of ensuring that their own interests are not damaged, enterprises donate redundant resources to society for free to achieve the purpose of improving and enhancing the welfare of the whole people. When the lowest level needs of enterprises have reached the saturation state, what they seek is recognition and respect from stakeholders. Zhang Jianjun (2013) studied the donation behavior of the 500 foreign-funded enterprises with the highest sales revenue in China after the Wenchuan earthquake in 2006, and finally found that these enterprises made donations and relief within a short time after the disaster, which fully reflected the corporate responsibility of caring for the world [6-9].

## **2.3. Strategic win-win view**

Different from the above two viewpoints, strategic win-win doctrine advocates linking the interests of enterprises and social stakeholders, and cannot only consider the interests of enterprises or others unilaterally. This view, founded in the 1990s, holds that charitable giving should be considered at a strategic level, and economic decisions should be made with the interests of both oneself and others in mind, so as to achieve a mutually beneficial situation. Wood (1990) believes that enterprises seek the balance between themselves and society from the perspective of society, and combine the interests of both to achieve the goal of win-win. Mescon (1987) studied that charitable donation, as a business strategy, can obtain more competitive capital, so as to achieve its own financial goals and take the initiative to assume social responsibilities. Michael and Mark (2002) believe that charitable donations by enterprises have unique competitive advantages, which are conducive to stand out from the fierce competition in the market. Similarly, Smith (1994) also analyzed that the philanthropy of a new company can improve the competitiveness of the enterprise and enhance customer satisfaction and support for its brand. Brammer (2005) studied the difference between the two business objectives and found that taking social responsibility can change customers' purchasing preferences. When the public welfare undertakings undertaken by enterprises are more in line with consumers' expectations, their propensity and strength to buy products will be greatly improved. Shen Qitesong and Jiang Zhihua (2013) witnessed the historical development of the concept of corporate social responsibility from a dynamic perspective, and believed that organizational social responsibility and the expected benefits of stakeholders are inseparable, enterprises should undertake social responsibility, and the link between the two is a comprehensive social contract, the principle of which requires enterprises to actively undertake social

responsibility. At the same time, the interests of enterprises and stakeholders should be considered. Yue Heng (2015) believes that when making donations from a strategic perspective, enterprises can take into account the interests of themselves and stakeholders at the same time. He believes that enterprises should make strategic donations after comprehensively considering relevant factors affecting donation, so as to achieve the goal of "low donation and high return". Wang Jun, Zheng Ling and Jiang Ruochen (2016) studied the relationship between charitable donations and financial performance of 446 private enterprises from 2008 to 2012 and argued that the level of benefits received from stakeholders determined the amount of foreign donations, so it could be understood as a self-serving and socially beneficial behavior[10-17].

#### **2.4. *Passive follower view***

The above three charitable concepts are all carried out by enterprises on their own initiative, or for their own interests, or to care for others, or both. They are all heartfelt social responsibilities. On the other hand, the passive follower philanthropy view holds that enterprises are forced to undertake social responsibilities and just "go with the flow". When society needs corporate assistance, most companies will actively take responsibility, but a few companies have to make symbolic donations in order to avoid being labeled "immoral" by the public. Harbaugh(1998) found that if enterprises actively undertake social responsibilities, stakeholders will choose to support the brands that have made contributions to the society, and then choose to support the products of such enterprises. As a result, the purchase and support of other enterprises in the same industry will decline, which will affect the development of enterprises over time. In order to avoid social obsolescence, such companies accept the "cost" and make forced donations. Gao Yongqiang (2012) found that when the enterprise has a low level of salary and treatment for its employees and the public support for its products is not strong, the enterprise will make charitable donations under the pressure of the labor union or the outside world in order to cover up its defects in other aspects, which is more obvious in Chinese private enterprises. Li Sihai (2012) studied the donation behavior of private enterprises with political background with government subsidies as the intermediary variable, and the research showed that private enterprises with losses were greatly influenced by political factors in undertaking social responsibilities, and the possibility of interest exchange with the government was relatively secret. And these organizations that receive government subsidies are more willing to donate to other countries in order to obtain more favorable development opportunities. Therefore, it is believed that these organizations may be under pressure to survive[18-21].

### **3. Charitable donation and corporate performance from a multi-dimensional perspective**

#### **3.1. *Managerial self-interest***

Performance exercise pressure will make management adopt corporate charitable donation decisions to cope with it, thus making charitable donation the product of management's self-interest (Zhu Tao, Tu Yuejun, 2022). Executives implementing equity incentive plans are more willing to make charitable donations to build corporate reputation capital, promote the improvement of corporate financial performance in the future, and thus meet the exercise conditions of executive equity incentive, which is more obvious in the combination of chairman and general manager, high proportion of internal directors and consumer-sensitive industries (Dai Yongwu et al., 2021). Managerial self-interest will increase corporate charitable donations, and the degree of industrial competition in non-state-owned enterprises will strengthen this influence (Tan Weijia et al., 2015) [22-27].

#### **3.2. *Original sin of enterprise***

Private enterprises suspected of "original sin" have the incentive to please the government and the public through charitable donations in order to reduce this threat, and this positive influence relationship weakens with the improvement of the institutional environment of the provinces and cities where the enterprises are located (Li Xue et al., 2020). The difference of ownership sources of private enterprises will affect their physical investment level (Xu Weibin, 2021).

#### **3.3. *Government intervention***

After the change of local governments, the tendency and scale of corporate charitable donation will increase significantly. As a result, donation can bring financial convenience, government subsidies,

investment opportunities and other economic benefits to private enterprises. Therefore, in a sense, charitable donation of Chinese private enterprises is a "political donation" for the establishment of political relations (Dai Yiyi et al., 2014); One of the important motives for the government to exchange resources with private enterprises through the intervention of credit allocation or to donate to the charity of private enterprises (Li Wei 'an et al., 2015); Political association will promote enterprises to consciously assume social responsibilities. Meanwhile, enterprises will share the pressure of government bailout through charitable donations in exchange for scarce resources (Zhu Bin et al., 2020). The greater the financial pressure of local governments, the more likely they are to solicit donations from private enterprises within their jurisdiction, which will directly increase the scale and frequency of charitable donations by enterprises within their jurisdiction (Huang Wei et al., 2020)[28-33].

### **3.4. Financing constraint**

Corporate social responsibility can effectively meet the requirements of stakeholders, enhance the timeliness of information disclosure, alleviate information asymmetry, and enable enterprises to reduce debt financing costs through charitable donations, thus improving corporate performance (Su Wujun et al., 2020). With the increase of corporate charitable donations, the degree of corporate financing constraint and the sensitivity of investment to operating cash flow decrease significantly, especially among private enterprises (Ruan Gangming et al., 2019).

### **3.5. Stock price fluctuation**

In order to resist the downward pressure of stock price brought by short selling mechanism, companies tend to adopt charitable donations to promote and stabilize stock price (Wei Haoqiang et al., 2020). Strategic donation can significantly reduce the volatility of company stock price (Wu Lianghai et al., 2018); In a large number of private enterprises, charitable donations are used as a tool to cover up and conceal negative information, so as to stabilize stock prices in the short term, and eventually lead to the concentrated release of negative information resulting in stock price crash (Cao Haimin et al., 2019). Charitable giving in the context of equity pledge is also related to stock price lifting and rent-seeking motivation (Hu Jun et al., 2022) [34-35].

## **4. Literature review**

According to the widening of relevant research scope and in-depth excavation, the research has gradually expanded from the simple relationship between charitable donation and intuitive performance measurement indicators to the exploration of mediating variables or different action paths, trying to clarify how the behavior and degree of charitable donation form microeconomic consequences. Most studies have proved that charitable donation has a positive effect on corporate performance from a broader perspective. In addition, through the research on the motivation of charitable donation, the paper connects the motivation, behavior, path and result, and subdivides the unique donation choices caused by differentiated motivation under different corporate characteristics. At present, the focus of the research is to clarify the conduction path brought by the decision-making of corporate charitable donation behavior in the micro level with the differentiation of perspectives and disciplines, so as to have a positive impact on the visual business results or a negative impact on the donation motivation.

## **5. Conclusions**

There are various motives in charitable donation behavior, and it has become a new research trend to passively follow the strategic win-win view and egoism view as the mainstream. There must be reasonable antecedents for charitable donation. Under the influence of different motivations, charitable donation motivations can be divided into two categories: active action and passive following.

Charitable donation has a positive impact on enterprises under most circumstances, but it also has a negative effect under special circumstances. In the study of charitable giving and its economic consequences, some studies have innovatively combined motivation-behavior-consequence to form a complete chain of causal effects. Among them, the motivation of donation affects the economic consequences by influencing the public's value judgment of donation behavior.

In a multi-dimensional perspective, the role of charitable donation on corporate performance is not simple. Charitable donation becomes a tool for enterprises to achieve certain purposes, such as enhancing

the external image of enterprises, strengthening the relationship between government and enterprises, and enhancing the legitimacy of enterprises. It shows that in the increasingly perfect market mechanism, the instrumental attributes of charitable donation are constantly explored and utilized, which is inconsistent with the original intention of charitable donation and even runs counter to it. But it may be the key to a virtuous cycle of corporate charitable giving.

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