Research on the impacts of Philanthropy Pressure on Enterprise Financial Performance

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Abstract: With the spreading of the coronavirus (COVID-19), donations from all sectors of society are also increasing, of which enterprises are undoubtedly the main donators. Why do profit-seeking firms still engage in philanthropy during the COVID-19 pandemic? Based on the panel data of China's A-share listed companies from 2014 to 2020, this paper empirically tests the relationship between philanthropy pressure and enterprise financial performance from the perspective of organizational fields. The result shows that the philanthropy pressure from the region enhances enterprise performance, and the level of legal region environment can negatively moderate this relationship. The philanthropy pressure from the industry can improve the enterprise performance, and the enterprise visibility will positively moderate this relationship.

Keywords: Philanthropy pressure; Financial performance; Organizational fields; Legal environment; Enterprise visibility.

1. Introduction

Since December 2019, COVID-19 began spread rapidly throughout China and worldwide. People from all sectors of society in China continued to donate money and materials to fight COVID-19 in different ways and through various channels, and enterprises are undoubtedly the main donators. For the profit-oriented enterprises that pursue the maximization of shareholders' equity, charitable donation expenditure is a cost burden. The altruistic behavior of charitable donation seems to be contrary to the profit-seeking purpose of enterprises. So why do most enterprises still participate in charitable donations during the COVID-19 pandemic period? Especially during which time period that their business may not be good?

On the one hand, according to Porter and Kramer’s (2006) theory of strategic philanthropy, charitable giving is not only responsible for the stakeholders, but also can help the government solve social problems. Since the enterprise could take this opportunity to draw closer to the government, which is beneficial to the acquisition of key external resources, by improving its corporate reputation and obtaining competitive advantages (Gao and Hafi 2017). On the other hand, an opposite view represented by Friedman (2007) believes that charitable donations occupied a part of the resources that could have been exchanged for profits, causing the loss of resources and violating the fundamental purpose of pursuing maximum profits (Schaltegger and Burritt 2018; Ohalehi 2019; Masulis and Reza 2014). Currently, the academic community has not formed a unified argument on whether and how charitable donations improve corporate performance.

Galaskiewicz's study of the philanthropic cities of Minneapolis and St. Paul found that the philanthropic giving of firms within regions and industries create isomorphic institutional pressures, which makes firms imitate the behavior of other firms to engage in philanthropic giving, resulting the phenomenon of philanthropic "contagion" between organizations. Therefore, philanthropic giving within a certain region or industry will lead to philanthropy pressure on firms, which will encourage firms to imitate philanthropic giving to influence firms’ performance, and on the other hand, other firms in the region or industry will gain more resources from the government and obtain consumer recognition through philanthropic giving, which will intensify market competition and affect firm performance as well. Although both region and industry philanthropy pressure have an impact on firm performance, the mechanisms behind these impacts are different: when faced with region philanthropy pressure, firms pay more attention to the government, which is the major stakeholder in the region. While when faced with industry philanthropy pressure, firms are more likely to focus on industry stakeholders, customers and suppliers.

Based on this, this paper proposes two moderating factors: legal environment level related to regional factors, and enterprise visibility related to industry factors, to research the impact of philanthropy pressure on corporate performance in different organizational fields. The main contribution of this paper is that (1) taking the environment of the organization as the main research perspective and focusing on the region and industry, the two most direct and adjacent organizational fields of the enterprise, which can make a more complete and detailed study of the impact of philanthropy pressure on corporate performance. (2) The study of the relationship between charitable giving and corporate performance also fails to integrate the dynamic environment in which enterprises operate into the study, and fails to focus on the impact of pressure from other enterprises and their external stakeholders, such as the government, the public, and industry, on corporate performance. This paper links the firm’s environment and the firm's performance to improve the existing theoretical shortcomings.

2. Literature Review

Current researches on charitable giving mainly focus on the influencing factors of charitable giving and the relationship between charitable giving and corporate performance. The influential factors can be divided into three categories: institutional level, organizational level and individual level (Aguinis 2012). At the institutional level, it is found that government intervention and corporate political connection
(Zhang, Marquis, and Qiao 2016; Xu and Liu 2020; Chan and Feng 2019) can affect charitable giving; the organizational level researches analyze the purpose of charitable giving is to improve corporate image (Ballings, McCullough, and Bharadwaj 2018; Gautier, and Pache 2015) and access government resources (Gao and Hafsi 2017; Cull et al. 2015); and the individual level researches focus on the influence of managers’ gender, place of birth, and values on charitable giving (Byron and Post 2016; Lin et al. 2018; Luo, Xiang, and Zhu 2017; Ben Selma, Yan, and Hafsi 2020). The relationship between philanthropic donation and corporate performance has the possibility of positive correlation (Plewnia and Guenther 2017; Lev and Radhakrishnan 2010), negative correlation (Cowen et al. 2013; Schaltegger and Burritt 2018; Ohalehi 2019; Masulis and Reza 2014) and other correlation (Wang et al. 2008; Barnett and Salomon 2012; Brammer and Millington 2008; Gao, Yang, and Hafsi 2019), so the conclusions are inconsistent.

After analyzing these researches at home and abroad, the following deficiencies were found: (1) Existing researches are inconclusive on whether charitable giving can improve corporate performance. (2) From the influencing factors of charitable giving, it can be seen that past researches mainly focus on factors such as political connections and the institutional environment, but few researches have been conducted on the moderating role of industry and regional factors in the organizational fields. Therefore, this paper expands the research objects, focusing on the impact of pressure from the main regional stakeholder government and the main industry stakeholder suppliers and customers on corporate performance. It also chooses the level of legal environment and enterprise visibility as the moderating factors.

3. Research Hypothesis and Research Design

3.1. Research Hypothesis

This paper analyzes the impact of region and industry philanthropy pressure on corporate financial performance and the moderating effect of the level of legal environment and enterprise visibility on it. There are two sources of philanthropy pressure in a region: first, the attention and recognition of the major regional stakeholder government to charitable behavior will form institutional strength, thus creating institutional pressure on companies to make charitable donations; second, the government’s recognition of corporate philanthropy will tilt resources in favor of companies actively making charitable donations, and the increased competitiveness of competitors will bring competitive pressure. Under these two pressure mechanisms, market competition intensifies, and firms would respond strategically to improve their performance. As Adam Smith pointed out in *The Wealth of Nations*: "Monopoly is the worst enemy of good management, so economists believe that competition is an effective way to improve business performance." Past scholars have also confirmed through various studies that the fiercer the market competition, the faster the performance improvement (Holmstrom 1982; Baggs and De 2007; Giroud and Mueller 2011; Grossman and Hart 2004; Nickell 1993; Grosfeld and Tressel 2002; Januszewski, Koke, and Winter 2002). Similarly, the impact of industry philanthropy pressure on corporate financial performance is consistent with the region philanthropy pressure mechanism, except that the industry’s main stakeholders are customers and suppliers.

3.1.1. The main effect of region and industry philanthropy pressure

When companies in a region make charitable donations, they receive attention and recognition from the government, which is the main stakeholder of the region, and receive resource compensation or subsidy income from the government (Gao and Hafsi, 2017). Therefore, there is a strong tendency for firms to make charitable donations in order to gain government support. This can lead to a high dependence on government resources, so firms will actively seek opportunities to build relationships with the government in order to exchange resources. The relatively significant stakeholders for firms in the industry are customers and suppliers. Therefore, within the industry environment, a company will pay more attention to the needs of its customers and suppliers. Firms fulfilling their responsibilities can improve their corporate image, attract customers, deepen their understanding and recognition of the company, and thus generate brand preference (Lenz, Wetzel, and Hammerschmidt 2017; Mishra and Modi 2016; Müller, Fries, and Gedenk 2014). Therefore, government recognition of charitable donations creates philanthropy pressure in the region, and customers and supplier’s recognition of charitable donations create philanthropy pressure in the industry.

H1: Region philanthropy pressure has a positive effect on enterprise financial performance.

H2: Industry philanthropy pressure has a positive effect on enterprise financial performance.

3.1.2. The moderating effect of the level of the legal environment

Where the legal system is very loose, ambiguous legal rules leave a lot of room for interpretation (Ahlstrom and Bruton 2001). In such an environment, the government has a higher right to interpret the law and has the ability to bring risks to enterprises. Enterprises will actively build relationships with the government in order to reduce transaction costs and uncertainty. When a company is in a poor legal environment, the formal legal system is unable to better protect the rights and interests of the company's operations, and the resources required by the company are largely controlled and allocated by the government. At the same time, the economic level is generally weaker in a region where the legal environment is poorer, the government will have higher expectations for enterprises to assume social responsibility, and will correspondingly provide policy and resource support in return. The combined forces of regional institutional environment and region philanthropy pressure make enterprises more sensitive to government demands, and region philanthropy pressure has a greater impact on enterprise performance.

H3: The level of legal environment negatively moderates the positive relationship between region philanthropy pressure and enterprise financial performance.

3.1.3. The moderating effect of enterprise visibility

Enterprise visibility refers to the amount of attention a firm receives from stakeholders such as the public, the media, and the government, and reflects the company's reputation, exposure, and attractiveness. The higher the visibility, the greater the exposure, the greater the stakeholder attention, and therefore the greater the pressure to comply with social norms (Wang and Qian 2011). At the industry level, high visibility will provide industry customers and suppliers with a clearer
understanding of the characteristics and level of enterprise social behavior, and will raise their expectations of the company (Brammer and Millington 2006). On the other hand, enterprises can also make use of their existing visibility advantages and high attention from stakeholders, making stakeholders respond positively to the enterprises’ decision-making behavior and better enhancing reputation. Therefore, enterprises with high visibility not only bear more philanthropy pressure, but also make strategic responses to the pressure pass on to financial performance more quickly.

H4: Enterprise visibility positively moderates the positive relationship between industry philanthropy pressure and enterprise financial performance.

3.2. Research Design

3.2.1. Data

The data were obtained from the following sources: CSMAR, Wind and annual reports of listed companies. This paper selects the data of China’s A-share listed companies from 2014-2020 as the original sample data. After dropping firms with missing key variables and non-conforming conditions, we created a final panel consisting of 9451 observations.

3.2.2. Variables

(1) Dependent Variables
Performance: this paper used an accounting-based measure of performance: return on assets (ROA), which is the ratio of net income to total assets, to measure the financial performance of a company in the current period.

(2) Independent Variables
Region philanthropy pressure (RegionD): the level of regional charitable donations, which is expressed by dividing the amount of enterprise charitable donations by the operating revenue in that year, in order to control for the effect of size on the absolute amount of charitable donations. According to the administrative district in which the firm is registered, the average of the charitable giving levels of all businesses in the same region is calculated as the region philanthropy pressure.

Industry philanthropy pressure (IndustryD): the level of industry charitable donations. Industry classification used the 2012 version of CSRC industry classification. According to the industry classification, calculate the average value of the enterprise charitable donation level of all enterprises in the same industry as industry philanthropy pressure.

(3) Moderating Variables
Legal environment level: this paper adopts China justice index of each province from 2016 to 2019 in “Report on China Justice Index”. Since there is no clear pattern of change in the justice index, the data for 2015 and 2014 are missing and no reasonable estimation method can be found, and then the data for 2020 has not been updated, this variable only used four years’ data.

Enterprise visibility: The more an enterprise invests in advertising and marketing and other sales expenses, the more attention it receives and the more visibility it has (Wang and Qian 2011). In this paper, we use the marketing expense ratio of the year, i.e., marketing expense divided by operating revenue to represent the relative investment in advertising and other marketing activities to reflect the degree of visibility of the enterprise in the market.

3.2.3. Models

Based on the above assumptions and variables, the following models are constructed to examine the hypothesis. The data were obtained from the following sources: CSMAR, Wind and annual reports of listed companies. This paper selects the data of China’s A-share listed companies from 2014-2020 as the original sample data. After dropping firms with missing key variables and non-conforming conditions, we created a final panel consisting of 9451 observations.

The following models are constructed to examine the relationship between philanthropy pressure and firm performance:

\[ \text{Performance}_t = \alpha + \alpha_{\text{RegionD}} + \alpha_{\text{Size}} + \alpha_{\text{Age}} + \alpha_{\text{Lev}} + \alpha_{\text{Growth}} + \varepsilon \]  

\[ \text{Performance}_t = \alpha + \alpha_{\text{IndustryD}} + \alpha_{\text{Size}} + \alpha_{\text{Age}} + \alpha_{\text{Lev}} + \alpha_{\text{Growth}} + \varepsilon \]  

\[ \text{Performance}_t = \alpha + \alpha_{\text{RegionD}} + \alpha_{\text{Legal}} + \alpha_{\text{RegionD}*\text{Legal}} + \alpha_{\text{Size}} + \alpha_{\text{Age}} + \alpha_{\text{Lev}} + \alpha_{\text{Growth}} + \varepsilon \]  

\[ \text{Performance}_t = \alpha + \alpha_{\text{IndustryD}} + \alpha_{\text{Visibility}} + \alpha_{\text{IndustryD}*\text{Visibility}} + \alpha_{\text{Size}} + \alpha_{\text{Age}} + \alpha_{\text{Lev}} + \alpha_{\text{Growth}} + \varepsilon \]  

4. Result

4.1. Descriptive Statistics and Correlation Result

According to the descriptive statistics and correlation results of all variables, the firm performance variable ROA is significantly correlated with industry philanthropy pressure (IndustryD) at the 1% level, which tentatively proves that the level of industry philanthropic donations has a significant positive relationship with firm performance, consistent with H2. The positive relationship between region philanthropy pressure (RegionD) and ROA is positive, but not significant, and needs to be further tested by multiple regression in the following sections.

4.2. Regression Result

This paper use panel data for the analysis, so the Hausman test is needed to choose whether the fixed effect model or the random effect model should be used. According to the analysis results, the P value of all models is 0.0000, so the null hypothesis is strongly rejected and the fixed effect model is adopted. The regression results are shown in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RegionD**</td>
<td>3.756</td>
<td>302.80**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1.970)</td>
<td>(2.29)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IndustryD***</td>
<td>6.1062</td>
<td>4.4304**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3.13)</td>
<td>(2.18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0024**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2.15)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RegionD* Legal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-4.1218**</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(-2.19)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Visibility</td>
<td></td>
<td></td>
<td>-0.0463***</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(-3.60)</td>
<td></td>
</tr>
<tr>
<td>IndustryD* Visibility</td>
<td></td>
<td></td>
<td>28.1383***</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(2.86)</td>
<td></td>
</tr>
<tr>
<td>LnSize</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>Age</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>Lev</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>Growth</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>N</td>
<td>14315</td>
<td>14315</td>
<td>14315</td>
<td>14315</td>
</tr>
<tr>
<td>R²</td>
<td>0.0582</td>
<td>0.0587</td>
<td>0.1290</td>
<td>0.0598</td>
</tr>
<tr>
<td>F</td>
<td>135.89</td>
<td>137.10</td>
<td>120.79</td>
<td>99.88</td>
</tr>
</tbody>
</table>

Note: *P<0.1; **P<0.05; ***P<0.01

Model 1 and 2 are used to test H1 and H2. The results show...
that ROA is significantly positively correlated with region and industry philanthropy pressure at 5% and 1% levels respectively, indicating that region philanthropy pressure will positively affect enterprise financial performance and industry philanthropy pressure will positively affect enterprise financial performance. Model 3 are used to test H3. The results show that after adding the legal environment interaction term, region philanthropy pressure is significantly positively correlated with ROA at the 5% level. The coefficient of RegionD*Legal interaction term is significant negative at the 5% level, indicating that regional legal environment level will negatively moderate the relationship between region philanthropy pressure and enterprise performance, which verifies H3. Model 4 are used to test H4. The results show that after adding the interaction term for enterprise visibility, industry philanthropy pressure is positively related to ROA at the 5% significance level. The coefficient of the IndustryD*Visibility interaction term is significant at the 1% significance level, supporting H4.

5. Discussion

5.1. Research Conclusions

(1) Within a region, positive philanthropic activity is recognized by the region's most prominent stakeholder - the government. Within an industry, positive philanthropic philanthropy is recognized by the industry's most prominent stakeholders - customers and suppliers. Therefore, region and industry charitable giving brings institutional pressure and competitive pressure makes the market more competitive, and in order to adapt to competition and gain a competitive advantage, companies may increase their own charitable giving to obtain corporate resources, suppliers, customer favor, and even continuously improve their own management and sales capabilities.(2) In regions with low legal systems, where the formal legal system is lax and the government controls most of the resources and has great freedom to allocate them. At this time, regional charitable donation will bring greater institutional pressure and competition pressure. Enterprises will also regard such pressure as an opportunity and will be more proactive in adopting strategies to reduce risk and improve performance. (3) For firms with higher visibility, industry customers and suppliers will be more aware of the firm's characteristics and behaviors, and will have higher expectations of the firm, which can lead to higher institutional and competitive pressures from philanthropic giving. By taking advantage of their visibility, enterprises can adopt proactive strategies to respond to this pressure, increase their moral capital, and improve their financial performance.

5.2. Research Suggestions

(1) The government should introduce positive preferential policies to encourage enterprises to donate, such as preferential tax and loan policies. And the public should pay more attention to the philanthropic donation behavior of enterprises, so as to urge enterprises to regard philanthropic donation as a kind of "non-price" competitive advantage similar to advertising. (2) Establish an effective social responsibility communication mechanism among enterprises, governments and the public. High visibility will bring a higher level of supervision and a lower level of information asymmetry, making enterprises more efficient in coping with pressure and faster in feedback from stakeholders. (3) Enterprises should actively make donations according to their own conditions and adjust their response strategies according to the actual situation. Enterprises' charitable donation can form the region and industry philanthropy pressure, driving the regional and industry charitable donation, forming a good market competition pressure to promote the common development of the industry and the region and establish a good operating environment.

References


