

Corporate Philanthropy and Firm Performance Relationship – Socio-Political and Government Control Effects

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ABSTRACT

Manuscript type: Research Paper

Research aims: This study aims to examine the impacts of social-political context and government control on the relationship between corporate philanthropy and firm performance using the listed firms' data on the Hong Kong Stock Exchange (HKEX).

Design/Methodology/Approach: This study uses multiple regression analysis to study the relationship between corporate philanthropy and firm performance using 2012-2018 Hong Kong listed firm data. Empirical results show a positive association between the current and lagged corporate philanthropy and financial performance. Subgroup analysis shows that the relationship is contingent on the socio-political and government control factors. Our subgroup analysis reveals that Hong Kong firms benefit more from corporate philanthropy than Mainland China firms, and non-government control mainland private firms have a stronger positive relationship

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than the state-owned enterprises. Our results support social impact theory and political connection theory.

Theoretical contribution/Originality: Our study bridges the gap of prior studies on the philanthropy-corporate finance relationship by isolating the separate effect of socio-political context impact and government ownership. We believe we are the first study in this respect. Our findings validate the results of prior studies in general and suggest the empirical results based on transitional economy data is, to some extent, generalisable.

Practitioner/Policy implication: Contemporary data provides empirical evidences that corporate philanthropy could elicit positive responses from stakeholders to bolster corporate financial performance, except firms under government control. The positive impact of donation was immediate with a lasting effect as suggested in the literature and the result would be relevant for regulators in formulating policies regarding corporate social performance.

Research limitation/Implication: Similar to previous studies, corporate philanthropy is proxy by the monetary amount of donation in this study. However, the context of corporate philanthropy very often goes beyond monetary donations and the findings may not apply to firms making substantial non-monetary donations.

Keywords: Corporate Philanthropy, Corporate Social Responsibility, Firm Performance, Socio-political Context, State-owned Enterprises.

JEL Classification: M14

1. Introduction

Corporate social responsibility (CSR) has become one of the standard business practices of global corporations and corporate philanthropy, the most important variable linking CSR and corporate social performance (CSP) (Carroll, 1991; Wood, 1991; Godfrey, 2005), often symbolises ‘good corporate citizenship’ (Saiia, 2001). Corporate philanthropy is the act of firms giving back to the society either in monetary or non-monetary forms, including product donations, employees’ time volunteering, workspace sponsorship and others for charitable causes such as arts, education and social services. Prior empirical studies have documented that corporate philanthropic behaviors are affected by firms’ socio-political environment and ownership structure (Seifert et al., 2004; Li et al., 2015; Wang & Qian, 2011; Yu, 2020).

Strategic corporate philanthropy allows corporations to craft corporate public relations to increase corporate performance (Godfrey, 2005; Surroca et al., 2010), but it may also only be an excuse

for top managers to use corporate resources to satisfy their narrow self-interests (Masulis & Reza, 2015). These two views suggest a completely opposite relationship between the corporate philanthropy and corporate performance. The academic debate on whether corporate philanthropic investment contributes to profitability has continued for decades but conclusive evidence has yet to emerge (Wang et al., 2008; Wang & Qian, 2011). Although some recent research has revealed that corporate philanthropy can improve firm performance under positive corporate governance moderation (e.g. Su & Sauerwald, 2015) or within the special socio-political environment of China (e.g. Wang & Qian, 2011), the results were obtained from sample data collected a decade ago. Given that the social consciousness of consumer has risen drastically worldwide in recent years, further studies should be conducted to solicit empirical evidence from contemporary data to uncover the links between corporate philanthropy and corporate performance.

Bridging between the Western countries and Mainland China, Hong Kong serves as the financial center for fund raising of Hong Kong and Mainland China firms which includes both private firms and state-own enterprises (SOEs). Hong Kong and Mainland China share similar cultural value but different political and economic systems under the 'one country, two systems' structure fosters a distinct environment to examine the relationship between the corporate philanthropy and corporate financial performance for the subset of firms in the context of social-political and ownership structure.

The Hong Kong Stock Exchange (HKEX) implemented a recommended practice in the Listing Rules requiring listed firms to report their environmental, social and governance (ESG) efforts for financial years ending on or after 31 December 2012. Consequently, the number of listed firms participating in corporate philanthropy and disclosing relevant information in their annual reports or in separate corporate sustainability reports has increased substantially. According to the annual reports of listed firms published on HKEX, the number of firms with corporate philanthropy increased by 52.7 per cent from 600 in 2012 to 916 in 2018, and 418 firms (45.6%) made donations for seven consecutive years. This provides a good opportunity to collect a unique and contemporary dataset comprising of sample firms operating in different economic and political environments to re-examine the relationship between philanthropy

and financial performance and also the impacts of the socio-political environment and ownership structure on the relationship.

The remainder of the paper is organised as follows. First, we briefly review the background literature and present the hypotheses related to the association between corporate philanthropy and financial performance and the impacts of socio-political context and government control on the relationship. Second, we describe our methodologies and empirical results obtained from the study. Finally, we conclude the paper with a discussion of the implications and limitations of the study.

2. Literature Review and Hypotheses Development

2.1.2 Relationship between Corporate Philanthropy and Corporate Financial Performance

Corporate philanthropy, an act of a corporation voluntarily and unconditionally giving back cash or other assets to the community to improve the wellbeing of life, is an important component of CSR. Following the introduction of CSR reporting in the early 2000s, corporations have experienced a 'shift of focus' in corporate objective from traditional view of short term profits maximisation (Friedman, 1970) to long-term corporate sustainability/profit maximisation by serving the needs of its stakeholders (Navarro, 1988).

Traditional firm theory views firms exist to maximise profits for its shareholders only, and managers should utilise all economic resources to attain goal congruence. Agency problem perceives corporate philanthropy as agency cost because it diverts firms' economic resources to causes unrelated to operations (Eisenhardt, 1989). Implicit in this argument is the assumption that opportunistic managers will abuse the rights of shareholders by using corporate donations to satisfy self-interests, such as personal social reputation and career advancement (Jensen & Meckling, 1976; Masulis & Reza, 2015). The extant studies using agency theory to examine the association between corporate philanthropy and corporate financial performance have produced mixed result. For example, Navarro (1988) has concluded that corporate philanthropy can maximise shareholders' wealth as advertising is an important motive to do philanthropy but Masulis and Reza's (2015) study fails to find a significant relationship between philanthropy and advertising intensity.

Contemporary firm theory proposes that the most important corporate goal is corporate sustainability which is achievable by a 'shift of focus' from maximizing shareholders' wealth to satisfying the needs and concerns of stakeholders. Stakeholders include, besides shareholders, employees, suppliers, customers, government bodies, creditors, and local communities that are dependent on or affected by the corporation (Freeman, 1988). According to the 'shift of focus' theory, firms owe stakeholders social responsibilities and proper use of corporate philanthropy to fulfil CSR performance can enhance a company's reputation/visibility and social image (Brammer & Millington, 2005; Godfrey, 2005; Wang & Pan, 2011). As the reputation is increasing, the company can, in the long run, reap the benefits through improved brand name, increased sales revenue and profitability (File & Prince, 1998; Han et al., 2016; Yu 2020). Cornell and Shapiro (1987) and Preston and O'Bannon (1997) called this the "social impact theory" which proposes that a firm's performance will be improved after it satisfies the CSR requests from its stakeholders. Following this line of argument, a firm can create a favourable corporate profile if its stakeholders endorse the firm's corporate philanthropy as appropriate and legitimate action in accordance to the social norms. Yu (2020) used the social impact theory and the shift of focus theory to examine whether the controversial industries moderates the relationship between corporate philanthropy and financial performance. Prior research studies have also reported that corporate philanthropy can serve to alleviate financial constraints (Han et al., 2016) and mitigate the risks of reputational losses (Godfrey, 2005).

The extant research has also documents that corporate philanthropy is an effective way to gain political access which can help the firms to obtain critical resources from the government. Dickson (2003) reported that when governments are hindered by policies or regulations from directly allocating resources to certain community areas, corporate philanthropy designated for such causes are perceived favorably as legitimate activity by both the government bodies and the stakeholders' concerned (Margolis & Walsh, 2003). Corporate philanthropy thus helps a firm gain socio-political legitimacy when the key stakeholders or government officials endorse corporate actions as appropriate and right in light of the existing norms and laws. In addition to increased visibility and reputation, firms will be rewarded with tax benefits, access to bank loans, easier project approval, and etc. (Pfeffer & Salancik,

1978; Ma & Parish, 2006). The use of corporate philanthropy to gain social-political capital is consistent with the resource exchange theory and political connections theory (Wang & Qian, 2011). In summary, corporate philanthropy that alleviate the needs of a firm's key stakeholders and government bodies has an important influence on the firm's financial performance. We propose our Hypothesis 1 as follows:

H₁: Corporate philanthropy is positively related to corporate financial performance.

2.2 Impact of Socio-Political Context and Government Control

Hong Kong is an international financial hub and Hong Kong capital market has attracted many corporations from mainland China wanting to raise external capital quickly and attract overseas investors. As of the end of 2018, the HKEX has listed 1,146 mainland firms accounting for almost half of the total number of listed firms on the HKEX and 68% of the stock market turnover. Although Hong Kong and Mainland China share similar cultural value, the principle of 'one country, two systems' allows Hong Kong to continue with a capitalist economy rather than follow the socialist-market economy in Mainland China. Under the socialist system, the government runs a planned economy which is characterised by 'state-owned enterprises'. State-owned enterprises utilise state resources and create 'enterprise-run society' which is responsible for education, health care and other social services within the local community. After the economic reform to socialist market economy in the 1980s, transformed or corporatised SOEs (hereafter 'SOEs') shifted their primary focus to economic profits but continued to have strong connection with the government-owner who will appoint CEO or executive directors to run the SOEs (Wang & Qian, 2011; Yu, 2020). The expectations of SOEs to continue its contribution to education, health care and other social services as part of CSR imposes a heavy burden or cost on them (Li & Wu, 2011). This indicates SOEs will have fewer incentives to engage in philanthropic activities other than the status-quo. This argument is supported by Tian (2016) who reported that the philanthropic activities of the SOEs are often 'mandatory' or as required by the government. In line with this observation, corporate philanthropy of SOEs may be labelled as 'forced' rather than 'voluntary' donation.

Private firms in mainland China, on the other hand, does not have the same level of political connection as the SOEs, so they will be more vulnerable to governmental policies change and soliciting a strong tie with the government officials and the local community for future political access becomes more crucial to attaining corporate sustainability (Pfeffer & Salancik, 1978; Hillman et al., 2009). Mainland private firms are more likely to use corporate philanthropy to strengthen the political connection with the government before the acquisition of critical political resources. For instance, Li et al. (2012) found significant positive relationship between corporate philanthropy and government allowances for China's losing firms. That is, the larger the government allowances, the more the loss-making firms are willing to donate for philanthropy causes. This finding supports the 'resource dependence theory' and 'political connection theory'. Hence, HKEX listed firms provide a good setting to examine whether the existence of different social-political system moderates the relationship between corporate philanthropy and firm financial performance. In the context of socio-political systems between Hong Kong and Mainland China, we develop our Hypothesis 2:

- H₂. The positive relationship between corporate philanthropy and corporate financial performance is affected by variations in the socio-political context.

Another key difference between Hong Kong firms and mainland China firms is the ownership structure. While many Hong Kong firms and mainland private firms are family-owned or controlled by a single majority shareholder, many mainland firms are owned/controlled directly or indirectly by the Chinese government. Government-owned firms (SOEs) are directly influenced by the government's signals on CSR (Marquis & Qian, 2015) because the government owns property rights and the means of production, as well as the rights to distribute resources which are used to determine the social performance and sustainability of firms. Non-government-owned firms (mainland private firms) have weaker ties with the government and smaller chance to acquire government resources critical to corporate sustainability. Mainland private firms must try to gain political access through other means such as philanthropic activities (Wang & Qian, 2011; Su & Sauerwald, 2015). We expect that the existence of government control will moderate the relationship

between corporate philanthropy and corporate financial performance between government-control and non-government-control firms. Based on the above arguments, we propose Hypothesis 3:

H₃: The positive relationship between corporate philanthropy and corporate financial performance is affected by variations in the ownership structure.

Overall, the positive relationship between corporate philanthropy and corporate financial performance is moderated by the social-political context and ownership structure as illustrated in Figure 1.

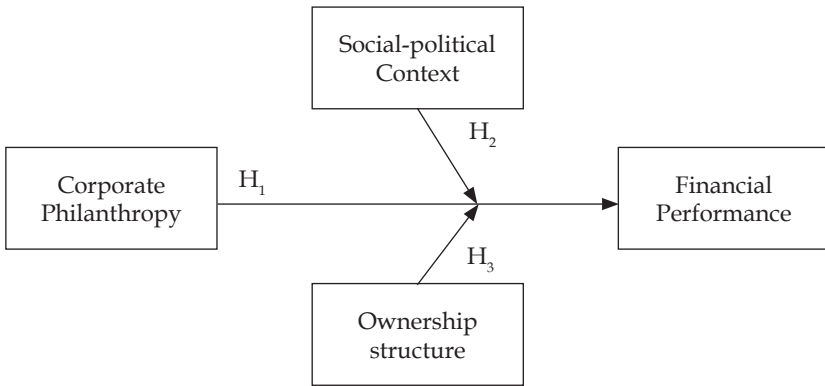


Figure 1: Moderation Model for the Study

3. Methods

3.1 Data and Sample

Our sample comprises all non-financial firms listed on the main board of the HKEX between 2012 and 2018.¹ Financial firms in the banking and insurance industry were excluded because these firms are subject to a different and more stringent set of regulations. We chose 2012 as the initial study year because HKEX implemented a recommend practice for ESG reporting in 2012. We collected

¹ Data have been collected up to and including 2019. However, having considered the adverse impact of social unrest in Hong Kong economic environment in the second half of Year 2019, the study year was excluded from the study to enhance the external validity of our findings.

corporate philanthropy and ownership data from annual reports and ESG reports published on the HKEX or the listed firms' websites and the financial data from the Datastream database. The break-down of the sample obtained for Hong Kong firms, SOEs and mainland private firms is summarised in Table 1.

Table 1: Summary Statistics of Corporate Philanthropy Sample (2012 to 2018)

Type	(A) Number of firms (%)	(B) Firms with corporate philanthropy count (%)	(C) Sample firms (%)	(D) Total firm-year observations (%)
Hong Kong Firms	814 (47.94)	565 (69.41)	485 (85.84)	2225 (48.31)
SOE	182 (10.72)	145 (79.67)	120 (82.76)	589 (12.79)
Mainland Private Firms	702 (41.34)	505 (71.94)	455 (90.10)	1792 (38.91)
Total	1,698 (100.00)	1,215 (71.55)	1,060 (87.24)	4,606 (100.00)

Notes: % in (A) = # in (A) / Total of (A); % in (B) = # in (B) / # in (A); % in (C) = # in (C) / # in (B); % in (D) = # in (D) / Total of (D)

We started our sample with 1,698 firms listed on the main board of the HKEX. After merging Datastream data with hand-collected data and excluding firms without corporate philanthropy and observations with missing or abnormal key variables, the final sample comprised 1,060 firms and 4,606 firm-year observations. For all listed firms, 1,215 firms (71.55%) had corporate philanthropy. The percentage of corporate philanthropy for SOE (79.67%) was significantly higher than that for both Hong Kong firms (69.41%) and mainland private firms (71.94%). The percentages of sample firms for Hong Kong firms (85.84%), SOE (82.76%), and mainland private firms (90.10%) were compatible, with an overall average of 87.24%. The sample observations were almost evenly divided between Hong Kong firms (48.31%) and mainland firms (51.69%). About three quarters of the samples of the mainland firms belonged to mainland private firms (38.91%) and one quarter belonged to SOE (12.79%).

3.2. Empirical Models and Measures

3.2.1 *Effect of Corporate Philanthropy on Financial Performance*

The main variables studied are corporate philanthropy and return on assets (ROA). ROA, measured as sum of net income and after tax interest expenses over average total assets at the beginning and end of a financial year, is a common accounting-based proxy of corporate financial performance (Han et al., 2016; Li et al., 2020). Corporate philanthropy (CP) is the independent variable and is proxy by the total amount of donations reported in the annual reports or ESG reports of firms.² Corporate philanthropy in prior studies is mainly measured in three ways: (1) the ratio of total donation amount over total assets or sales revenue (e.g. Su & Sauerwald, 2015; Pan et al., 2019); (2) the natural logarithm of the total amount of donations in the financial year (e.g. Brammer & Millington, 2004; Wang & Qian, 2011; Bose et al., 2017; He & Yu, 2019; Li, et al., 2020); and (3) the total amount of donations (e.g. Han et al., 2016; Ge & Micelotta, 2019). As total assets (revenue) often proxy firm size which is separately controlled for in our study, we measured CP as the natural logarithm of the total amount of donations. The logarithm form takes care of the skewness of the donation amount. Previous studies have documented that there may be a lag time effect of corporate philanthropy on financial performance, so we examined both the current and one-year lagged effects of CP on ROA.

We included the following control variables in our regression models. Previous researchers have asserted that larger firms who possess more resources and visibility, have a better ability to meet stakeholder's demands (Wang & Qian, 2011; Li, et al., 2020) and are more vigorous in corporate philanthropy (Brammer & Millington, 2005). We included firm size (SIZE) as a control variable. SIZE is measured as the natural logarithm of total assets (Wang & Qian, 2011; Li et al, 2020). Firm age (AGE) is measured as the reporting year minus the year of initial public offering. This is in line with the findings in Barnett & Salomon (2006) that corporate performance can be affected by the organizational inertia of older firms (Wang

² Although firms may make donations in cash or in-kinds, some in-kinds donations have been quantified and included in the aggregate amount of donations made during the financial year. For example, CK Hutchison Holdings Limited made the following disclosure on corporate philanthropy in its 2016 Annual report "..... over HK\$3.35 million of cash and in-kind donations have been made in total." [p.100]

& Qian, 2011); Leverage (LEV) is measured as the ratio of the total liabilities over total assets. LEV can increase the potential return of an investment, but high leverage will increase the cost of capital and impose financial constraints on firms. Han et al. (2016) provides empirical evidence that capital structure imposed financial constraints on firms which can be alleviated by strategic corporate philanthropy. Advertising intensity (ADV_INT) is measured as the ratio of the sum of selling, general and administrative expenses over net sales. This variable provides indications on firm's willingness to spend on marketing and selling-related activities so as to increase corporate visibility as well as differentiate itself from competitors. Strategic corporate philanthropy contributes to firms' social performance and should work the same way as advertising intensity in enhancing firms' reputation (Narravo, 1988; Brammer & Millington, 2005; Wang & Qian, 2011). To control for possible differences in corporate philanthropy among industries, we added 10 industry (INDUSTRY) dummies based on the industrial classification of the HKEX. Finally, the year fixed effect was controlled by year (YEAR) dummies.

We used the following regression models to test hypothesis H₁. Models 1a and 1b examine the current and lagged effect of corporate philanthropy on financial performance respectively:

$$ROA_t = \beta_0 + \beta_1 CP_t + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (1a)$$

$$ROA_t = \beta_0 + \beta_1 CP_{t-1} + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (1b)$$

3.2.2 Moderation Effect of Socio-Political Context and Government Control

To examine whether socio-political environment will moderate the relationship between corporate philanthropy and financial performance, we introduced a mainland firm (MF) dummy whose value was set to 1 for listed mainland firms (SOEs and mainland private firms) and 0 otherwise. The dummy variable and its interaction term with corporate donation were added in equations (1a) and (1b) for testing hypothesis H₂:

$$ROA_t = \beta_0 + \beta_1 CP_t + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + \beta_6 MF_t + \beta_7 CP_t \times MF_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (2a)$$

$$ROA_t = \beta_0 + \beta_1 CP_{t-1} + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + \beta_6 MF_t + \beta_7 CP_t \times MF_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (2b)$$

To evaluate whether the effect of corporate philanthropy on the corporate performance will be moderated by the existence of government control, an SOE dummy was introduced to differentiate government control firms (i.e. SOEs) from non-government control firms (Hong Kong firms and mainland private firms). An SOE is assigned a value of 1 and 0 otherwise. The dummy variable and its interaction term with corporate philanthropy were added in equations (1a) and (1b) for testing hypothesis H3:

$$ROA_t = \beta_0 + \beta_1 CP_t + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + \beta_6 SOE_t + \beta_7 CP_t \times SOE_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (3a)$$

$$ROA_t = \beta_0 + \beta_1 CP_{t-1} + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + \beta_6 SOE_t + \beta_7 CP_t \times SOE_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (3b)$$

The above models utilise the whole panel data to evaluate the effects of socio-political context and government control. As mentioned earlier, Hong Kong and mainland China operate under different market economy mechanisms which may have an impact on the effects of socio-political and ownership structure on the panel data. In order to examine the isolation effects of socio-political context and government control impact, we categorised the panel data into three sub-samples and label them as Hong Kong firms (HK), State-owned firms (SOE), and mainland private firms (MP), and performed pairwise analysis and comparison of the subset of panel data created for any two different sub-samples of listed firms. Pairwise comparison of subsamples was applied to all mentioned models except Models 2a and 2b. Models 2a and 2b was modified by replacing the MF dummy with a MP dummy, whose value was set to 1 for listed mainland private firms and 0 otherwise, for testing hypothesis H₂:

$$ROA_t = \beta_0 + \beta_1 CP_t + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + \beta_6 MP_t + \beta_7 CP \times MP_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (4a)$$

$$ROA_t = \beta_0 + \beta_1 CP_{t-1} + \beta_2 SIZE_t + \beta_3 AGE_t + \beta_4 LEV_t + \beta_5 ADV_INT_t + \beta_6 MP_t + \beta_7 CP \times MP_t + INDUSTRY_t + YEAR_t + \varepsilon_t \quad (4b)$$

The research models, as exhibited in equations (1a) to (4b), were estimated using ordinary least square (OLS) regression method. Robust standard errors were used to address the potential unobserved heterogeneity due to omitted variables in the models. In addition, variance inflation factor (VIF) was used to diagnose potential collinearity in the models. The detailed definition of all variables is summarised in Table 2 below.

Table 2: Detailed Definition of All Variables

Variables	Symbols	Definition
<i>Dependent variable</i>		
Return on assets	ROA	Sum of net income and after tax interest expenses over average total assets at the beginning and ending of year
<i>Independent variable</i>		
Corporate philanthropy	CP	Natural logarithm of total amount of donations reported in the annual reports or the ESG reports.
<i>Control variables</i>		
Firm size	SIZE	Natural logarithm of total assets
Firm age	AGE	Reporting year minus the year of initial public offering
Leverage	LEV	Ratio of total liabilities over total assets
Advertising intensity	ADV_INT	Ratio of the sum of selling, general and administrative expenses over net sales
<i>Dummy variables</i>		
Mainland firms	MF	A dummy variable coded 1 if a firm is classified as a mainland firm (including both SOEs and mainland private firms), and 0 otherwise

Table 2: Detailed Definition of All Variables

Variables	Symbols	Definition
State-owned firms	SOE	A dummy variable coded 1 if a firm is classified as a state-owned firm, and 0 otherwise
Mainland-private firms	MP	A dummy variable coded 1 if a firm is classified as a mainland private firm, and 0 otherwise
Year	YEAR	Dummy variables for years
Industry	INDUSTRY	Dummy variables for industry categories

4. Results

4.1 *Descriptive Statistics and Correlations*

Descriptive statistics and the correlation matrix for the variables used in this study are presented in Tables 3(a) to 3(c). Tables 3(a) and 3(b) present the summarised statistics of all sample firms for testing the current and lagged effects of CP on ROA respectively. The current impact of CP (4.31) (see Table 3(a)) on average ROA was larger than that of the lagged CP (3.86) (see Table 3(b)). The average CP of 1.80 was similar for both models. The correlations between the CP and ROA were positive and significant for both models and the correlation coefficient of non-lagged CP and lagged CP were 0.150 and 0.146, respectively. As expected, the SOE, MP, and MF dummy variables were significantly correlated to CP in both non-lagged model (0.078, 0.099, and 0.149) and lagged model (0.074, 0.097 and 0.144). Significant correlations were also found for firm size, firm age, leverage, and advertising intensity. In particular, the advertising intensity was negatively correlated with corporate donation suggesting corporation philanthropy might be used as a substitute to advertising in attracting favorable public perception. This result is consistent with the finding in prior studies (Navarro, 1988; Wang & Qian, 2011). We further investigated whether there is a potential multicollinearity problem in our regression models by computing VIF. The maximum VIF (excluding moderating variables

and interaction terms) obtained in any of the models was 2.43, which is substantially below the rule-of-thumb cutoff of 10 (or the stringent cutoff of 4) for the sign of severe or serious multicollinearity issue. This indicates the possibility of potential multicollinearity among variables is not a major concern in our results.

Table 3(c) presents the break down statistics of CP and the correlation between CP, ROA and the four control variables. The mean CP of SOE and mainland firms were slightly greater than that of HK firms. The correlation between non-lagged CP and ROA was smaller than the lagged CP for all subsamples except for MP subgroup. The negative correlation between advertising intensity and CP for Hong Kong was significantly smaller than mainland private firms and SOE. This appears to support our proposition that companies in socialist market economy are more sensitive to social impact theory and political connection.

Table 3: Descriptive Statistics and Correlations

(a) Sample of non-lagged model

Variables	Mean	SD	1	2	3	4	5	6	7	8	9
1.	4.31	9.45	1.000								
2.	1.80	0.45	0.150	1.000							
3.	0.13	0.33	-0.015	0.078	1.000						
4.	0.39	0.49	0.037	0.099	-0.306	1.000					
5.	0.52	0.50	0.026	0.149	0.370	0.771	1.000				
6.	2.77	0.13	0.098	0.508	0.296	0.122	0.317	1.000			
7.	15.00	12.13	-0.059	0.013	0.055	-0.426	-0.379	0.142	1.000		
8.	31.01	23.25	-0.155	0.184	0.114	0.191	0.263	0.388	-0.137	1.000	
9.	24.68	29.90	-0.232	-0.135	-0.101	-0.103	-0.168	-0.275	0.085	-0.154	1.000

Notes: 1= Return on assets; 2= Corporate philanthropy; 3= SOE; 4= Mainland private firm; 5= Mainland firm; 6= Firm size; 7= Firm age; 8= Leverage; 9= Advertising intensity; Correlations ≥ 0.029 are significant at $p < 0.05$ for $n = 4606$

(b) Sample of lagged models

Variables	SD	1	2	3	4	5	6	7	8	9	
1.	3.86	9.59	1.000								
2.	1.80	0.45	0.146	1.000							
3.	0.13	0.34	0.003	0.074	1.000						
4.	0.38	0.49	0.050	0.097	-0.303	1.000					
5.	0.51	0.50	0.051	0.144	0.379	0.767	1.000				
6.	2.77	0.12	0.150	0.490	0.292	0.119	0.312	1.000			
7.	14.59	12.06	-0.041	0.008	0.044	-0.435	-0.393	0.123	1.000		
8.	31.32	25.03	-0.202	0.159	0.100	0.176	0.238	0.344	-0.137	1.000	
9.	25.01	32.05	-0.285	-0.128	-0.098	-0.101	-0.164	-0.274	0.087	-0.121	1.000

Notes: 1= Return on assets; 2= Corporate philanthropy t-1 ; 3= SOE; 4= Mainland private firm; 5= Mainland firm 6= Firm; size; 7= Firm age; 8= Leverage; 9= Advertising intensity; Correlations ≥ 0.030 are significant at $p < 0.05$ for $n=4302$

(c) Break-down of Sample

	Subsample	Mean	SD	ROA	Firm Size	Firm Age	Leverage	Advertising Intensity
Non-lagged Corporate Philanthropy (<i>t</i>)	All	1.80	0.45	0.150	0.508	0.013	0.184	-0.155
	HK	1.73	0.47	0.193	0.478	0.149	0.100	-0.078
	SOE	1.90	0.44	-0.034	0.598	-0.083	0.081	-0.151
	Mainland Private	1.86	0.42	0.113	0.489	-0.034	0.236	-0.173
Lagged Corporate Philanthropy (<i>t-1</i>)	All	1.80	0.45	0.146	0.490	0.008	0.159	-0.128
	HK	1.74	0.47	0.204	0.466	0.152	0.073	-0.093
	SOE	1.90	0.44	-0.026	0.570	-0.099	0.024	-0.177
	Mainland Private	1.86	0.42	0.058	0.466	-0.063	0.234	-0.122

4.2. Regression Analysis Results

Tables 4 and 5 present, respectively, the results of non-lagged and lagged CP as exhibited in models 1a, 2a and 3a. Models 1a and 1b are baseline models for testing hypothesis H₁. The mainland private firms and SOE dummy variables together with their interactions with corporate philanthropy were added in models 2a and 2b and models

3a and 3b separately for testing hypotheses H_2 and H_3 , respectively. Tables 6 and 7 present the results of pairwise comparison of the subgroup panel data of HK, SOEs and MP in order to measure the isolation effects of socio-political and governmental control on corporate philanthropy. When we performed pairwise analysis of subsample groups, the mainland firm (MF) variable dummy in models 2a and 2b was replaced by a new dummy variable, mainland private firms (MP) as presented in models 4a and 4b.

In the baseline models 1a and 1b, the coefficients of CP were all positives and significant (p -value < 0.001). This indicates CP has a positive effect on the corporate financial performance measured as ROA. This finding is consistent with the relevant findings in earlier studies (e.g. Wang & Qian, 2011; Yu, 2020). The relationship between non-lagged CP and ROA (1a) is generally stronger than that of lagged CP (1b). The result concurs with the correlation analysis in Section 4.1 and suggests that the positive impacts of CP on ROA is more immediate rather than lagged as assumed in Wang and Qian (2011). Our result supports Han et al.'s (2016) finding that corporate philanthropy can affect the corporate value in the following year but the effect is smaller than the concurrent year effect. This indicates that non-lagged CP may be a more appropriate proxy than lagged CP for studying the effect of philanthropy on financial performance. In summary, the empirical results support Hypothesis H_1 and suggests that corporate philanthropy does create social impacts on corporate financial performance.

Hypothesis H_2 predicts that variations in the socio-political environment moderate the positive relationship between corporate philanthropy and financial performance as described by the resource dependence theory and political connection theory. The coefficients of the interaction term between CP and mainland firms (MF) in models 2a and 2b were all negative and significant (p -value < 0.001) with a coefficient of -0.654 and -0.669 for non-lagged and lagged CP respectively. This implies the socio-political factor in mainland China significantly moderates the positive relationship between corporate philanthropy and financial performance of MF. The results are consistent with our expectation and strongly support hypothesis H_2 . In other words, the positive relationship between corporate philanthropy and financial performance is affected by the differences in the socio-political context (Hong Kong vs. China).

Table 4: Association between Corporate Philanthropy and Financial Performance (Non-Lagged Model)

Variables	Model 1a Coefficient Estimate (p-value)	Model 2a Coefficient Estimate (p-value)	Model 3a Coefficient Estimate (p-value)
Corporate Philanthropy	0.432 (0.000)***	0.799 (0.000)***	0.553 (0.000)***
Firm Size	0.359 (0.005)**	0.403 (0.003)**	0.457 (0.001)**
Firm Age	-0.063 (0.000)***	-0.078 (0.000)***	-0.065 (0.000)***
Leverage	-0.094 (0.000)***	-0.092 (0.000)***	-0.100 (0.000)***
Advertising Intensity	-0.075 (0.000)***	-0.075 (0.000)***	-0.075 (0.000)***
Mainland Company		3.721 (0.000)***	
Mainland Company × Corporate Philanthropy		-0.654 (0.000)***	
SOE			5.144 (0.000)***
SOE × Corporate Philanthropy			-0.903 (0.000)***
Industry	Include	Include	Include
Year	Include	Include	Include
Observations	4606	4606	4606
Adj. R ²	0.128	0.133	0.135
F	33.055 (0.000)***	31.790 (0.000)***	32.154 (0.000)***
Maximum VIF	2.18	2.43	2.34

Notes: *p<0.05; **p<0.01; ***p<0.001; (p-value)

Hypothesis H₃ examines the impact of the unique characteristics of government ownership/control of firms on the positive relationship between corporate philanthropy and financial performance. The negative and significant coefficients of the interaction term between CP and SOE in models 3a and 3b (-0.903 and -0.919) (p-value < 0.001) strongly support Hypothesis H₃ and suggest that the positive relationship is moderated by the stronger ties between the SOEs and the Chinese government. Our result is in line with Tian's (2016)

observations that the government is the driving forces of SOE's corporate philanthropy and that SOE tend to make donations under government intervention and is reluctant to do more than the status-quo. In summary, government control significantly moderates the positive relationship between corporate philanthropy and financial performance. Hypothesis H₃ is supported.

Table 5: Association between Philanthropy and Financial Performance (Lagged Model)

Variables	Model 1b Coefficient Estimate (p-value)	Model 2b Coefficient Estimate (p-value)	Model 3b Coefficient Estimate (p-value)
Corporate Philanthropy (<i>t-1</i>)	0.177 (0.029)*	0.545 (0.000)***	0.309 (0.000)***
Firm Size	0.806 (0.000)***	0.821 (0.000)***	0.897 (0.000)***
Firm Age	-0.063 (0.000)***	-0.073 (0.000)***	-0.064 (0.000)***
Leverage	-0.109 (0.000)***	-0.108 (0.000)***	-0.113 (0.000)***
Advertising Intensity	-0.081 (0.000)***	-0.081 (0.000)***	-0.081 (0.000)***
Mainland Company		4.175 (0.000)***	
Mainland Company × Corporate Philanthropy		-0.669 (0.000)***	
SOE			5.235 (0.000)***
SOE × Corporate Philanthropy			-0.919 (0.000)***
Industry	Include	Include	Include
Year	Include	Include	Include
Observations	4302	4302	4302
Adj. R ²	0.181	0.187	0.188
F	46.332 (0.000)***	43.942 (0.000)***	44.425 (0.000)***
Maximum VIF	2.09	2.33	2.23

Notes: *p<0.05; **p<0.01; ***p<0.001; (p-value)

Although our empirical results support hypotheses H₂ and H₃, the empirical findings may contain some noises because the socio-political context and/or government control of firms are not examined in common setting. For instance, Model 3a examines

the impact of government-controlled proxies by SOEs and non-government controlled firms which includes mainland private firms (sharing the same socio-political context as SOEs) and Hong Kong firms (having a different socio-political system). We made attempt to single out the socio-political effects and government control effects by performing pairwise analysis of subsample of firms. The results of pairwise comparison of the sub-sample of panel data for non-lagged and lagged CP are given in Tables 6 and 7, respectively. For the subgroup of Hong Kong (HK) vs Mainland Private (MP) firms, the two subgroups of companies have similar ownership structure but operates in different socio-political context. The coefficients of interaction term between CP and MP were negative (-0.449 and -0.454) and significant for ROA (p-value < 0.01). This implies socialist market economy has a moderating effect on the corporate philanthropy-financial performance relationship. For the subgroup of MP vs SOE, the two subgroups of companies operate under the same political system but differ in government ownership only. The coefficient of the interaction term between CP and SOE were negative (-0.658 and -0.705) and significant for ROA (p-value < 0.001), but the coefficient of corporate philanthropy was positive for both non-lagged and lagged corporate philanthropy. This observation supports the finding of Wang and Qian (2011) that mainland private firms do not have as strong a tie with the government and need to rely more on corporate philanthropy either as a means to exchange resources or establish political connection. This finding provides additional support to Hypothesis H₃. Since SOE firms and Hong Kong firms are operating under different socio-political and government control, the interaction term between corporate philanthropy and SOE in the HK vs SOE subgroup combines the effect of both factors. The coefficients of the interaction term in HK vs SOE group, were negative (-1.088 and -1.075) and significant for ROA (p-value < 0.001), were much larger than the other two subgroup pairwise comparison results. The result suggests 'social impact' argument of the stakeholder's theory is an important driving force of corporate philanthropy in a capitalist market society. The result of the subgroup testing is consistent with the results obtained in the whole panel data.

Corporate Philanthropy and Firm Performance Relationship

Table 6: Association between Corporate Philanthropy and Financial Performance by Pairwise Comparison (Non-Lagged Model)

Variables	Model (HK vs MP)	Model (MP vs SOE)	Model (HK vs SOE)
	Coefficient Estimate (p-value)	Coefficient Estimate (p-value)	Coefficient Estimate (p-value)
Corporate Philanthropy	0.746 (0.000)***	0.408 (0.000)***	0.718 (0.000)***
Firm Size	0.557 (0.000)***	0.112 (0.505)	0.591 (0.001)**
Firm Age	-0.089 (0.000)***	-0.059 (0.004)**	-0.074 (0.000)***
Leverage	-0.100 (0.000)***	-0.076 (0.000)***	-0.100 (0.000)***
Advertising Intensity	-0.078 (0.000)***	-0.110 (0.000)***	-0.056 (0.000)***
Mainland Private	2.364 (0.033)*		
Mainland Private × Corporate Philanthropy	-0.449 (0.002)**		
SOE		3.742 (0.000)***	6.249 (0.000)***
SOE × Corporate Philanthropy		-0.658 (0.000)***	-1.088 (0.000)***
Industry	Include	Include	Include
Year	Include	Include	Include
Observations	4017	2381	2814
Adj. R ²	0.142	0.159	0.127
F	32.752 (0.000)***	20.550 (0.000)***	18.784 (0.000)***
Maximum VIF	2.67	2.60	2.62

Notes: *p<0.05; **p<0.01; ***p<0.001; (p-value)

Table 7: Association between Philanthropy And Financial Performance by Pairwise Comparison (Lagged Model)

Variables	Model (HK vs MP)	Model (MP vs SOE)	Model (HK vs SOE)
	Coefficient Estimate (p-value)	Coefficient Estimate (p-value)	Coefficient Estimate (p-value)
Corporate Philanthropy (t-1)	0.468 (0.000)***	0.192 (0.040)*	0.485 (0.000)***
Firm Size	1.026 (0.000)***	0.606 (0.001)**	0.892 (0.000)***
Firm Age	-0.080 (0.000)***	-0.072 (0.000)***	-0.061 (0.000)***
Leverage	-0.115 (0.000)***	-0.112 (0.000)***	-0.102 (0.000)***

Table 7: Association between Philanthropy And Financial Performance by Pairwise Comparison (Lagged Model) (continued)

Variables	Model (HK vs MP)	Model (MP vs SOE)	Model (HK vs SOE)
	Coefficient Estimate (p-value)	Coefficient Estimate (p-value)	Coefficient Estimate (p-value)
Advertising Intensity	-0.084 (0.000)***	-0.095 (0.000)***	-0.072 (0.000)***
Mainland Private	2.811 (0.007)**		
Mainland Private × Corporate Philanthropy	-0.454 (0.001)**		
SOE		4.026 (0.000)***	6.350 (0.000)***
SOE × Corporate Philanthropy		-0.705 (0.000)***	-1.075 (0.000)***
Industry	Include	Include	Include
Year	Include	Include	Include
Observations	3741	2196	2667
Adj. R ²	0.198	0.218	0.168
F	41.106 (0.000)***	27.596 (0.000)***	24.475 (0.000)***
Maximum VIF	2.53	2.48	2.49

Notes: *p<0.05; **p<0.01; ***p<0.001; (p-value)

To further interpret the results, the pick-a-point approach (Bauer & Curran, 2005) was applied to illustrate the interaction effects between the corporate philanthropy and the mainland firms; and between the CP and SOE on ROA. Figures 2(a) and 2(b) show that the relationship between CP and financial performance of Hong Kong firms was more positive than that of mainland firms, particularly for the non-lagged CP. For lagged CP, the relationship tends to less positive or become negative for mainland firms (Figure 2(b)). In contrast, the relationship tends to become negative for SOE as shown in Figures 3(a) and 3(b). The results suggest that increase corporate philanthropy has more positive effect on financial performance under implicit CSR (Matten, & Moon, 2008) but may adversely affect the financial performance of SOE.

Corporate Philanthropy and Firm Performance Relationship

(a) Non-lagged CP (t)



(b) Lagged CP ($t-1$)



Figure 2: Interaction Effect between CP and Mainland Firms on ROA

(a) Non-lagged CP (t)



(b) Lagged CP ($t-1$)



Figure 3: Interaction Effect between CP and SOE on ROA

Figures 4 and 5 show the interaction effect in each subgroup data including: (a) between the CP and the mainland private firm (for Hong Kong and mainland private firms), (b) between the CP and mainland private (for mainland private firm and SOE), and (c) between the CP and SOE (for Hong Kong firm and SOE). The relationship for Hong Kong firms was more positive than mainland private firms, and the relationship for mainland private firms was more positive than SOE in turn. The relationships for SOE were negative. Both the socio-political and government control had negative impacts on the positive relationship between the CP and ROA.

(a) Non-lagged CP (t)



(b) Lagged CP ($t-1$)



(c) HK vs SOE

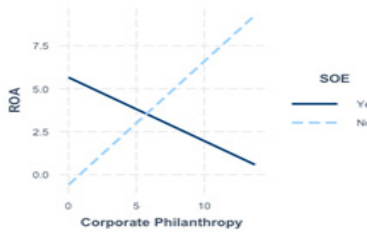


Figure 4: Interaction Effect between CP and Mainland Private firms/SOE on ROA in Pairwise Comparison

(a) HK vs MP



(b) MP vs SOE



(c) HK vs SOE

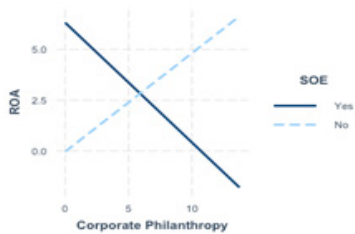


Figure 5: Interaction Effect between CP ($t-1$) and Mainland Firm on ROA by Pairwise Comparison

Conclusion

In this study, we use Hong Kong listed firms' data to examine the effect of corporate philanthropy on corporate financial performance and find that both socio-political context and government ownership structure have a moderating effect on the positive relationship between corporate philanthropy and firm performance. Unlike prior studies, our dataset is unique as mainland China firms and non-mainland China firms are operating under a different economic and political settings – mainland firms operate under a transitional economy socialist-market and Hong Kong firms operate under a matured capitalist economy. This enables us to perform pairwise comparison of subgroups and examine the isolation effect of socio-political context and government control impact. Hong Kong firms have a stronger positive relationship than mainland private firms and SOEs. This suggests the relationship between corporate philanthropy and financial performance is contingent on the socio-political context as the relationship tends to be more positive in Hong Kong firms than mainland private firms and become negative for state-owned enterprises. The social impact of corporate philanthropy may vary by the political and economic systems and corporate philanthropy may hurt instead of bolstering financial performance of firms under government control. Our results will be relevant for the HKEX policymakers in assessing how the firms and stakeholders react to the CSR disclosure requirements and the need to implement mandatory CSR reporting. Our results also provide insights for firms' management in formulating the strategic corporate philanthropy policy to suit a desired level of corporate visibility to attain market competitiveness and long-term corporate sustainability.

Nevertheless, our study suffers some limitations in research construct. We use the reported monetary donation to proxy corporate philanthropy. However, corporate philanthropy goes beyond mere monetary donations. Future research should try to measure and study the effects of unquantifiable in-kinds donations on financial performance. This will provide a better picture and understanding on the corporate philanthropy and financial performance relationship.

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