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Does Giving Lead to Getting? Evidence from Chinese Private Enterprises

Jun Su
Jia He

ABSTRACT. Enterprise philanthropy is practiced in a very unique and rudimentary form in China. Based on a unique random survey data on 3837 Chinese private enterprises conducted in 31 provinces of China in 2006, I find the significant positive relationship between enterprise philanthropy donation and enterprise profitability, and the result supports the political and institutional power view of enterprise philanthropy in the latest development of China. Simply put, Chinese private enterprises carried out philanthropy activities to better protect property rights and nurture political connections, which in turn, leads to better enterprise profitability. The result is even stronger in institutions weaker provinces.

KEY WORDS: donation, philanthropy, private enterprise, political connections, property rights

ABBREVIATIONS: ROA: Return on assets; ROE: Return on equity; R&D: Research and Development; SOE: State-owned enterprise; RMB: Chinese currency abbreviation (Renminbi)

Introduction

Wenchuan, a name knocked people's ears around the world suddenly on the day of May 12, 2008, when an intensive inland earthquake seized hearts of people around the world, and for the first time, Chinese enterprises with unprecedented donations helping the victims caught the world's eyes, and the tragedy event unveiled the curtain of Chinese enterprises philanthropy activities. Who are the enterprises that donated intensively? What lies behind the donations? Did giving finally lead to getting? This article attempts to answer the above questions utilizing a nationwide private enterprise survey of 3837 responses in 2006. In this article, I argue that private enterprises donate with a view to nurture political connections and to consolidate property right and thereby to improve enterprises performance.[1]

Enterprise philanthropy is practiced in a very unique and rudimentary form in China, and its presence raises several interesting research questions about the future of the Chinese private sector. The role and the extent of philanthropic behavior by the Chinese private sector are comprehensive. Philanthropy in China has not been widely documented or explored especially in private sector, nor is it a phenomenon that is easy to observe because of the inadequate data.

Philanthropy is an important phenomenon in China because it may provide evidence of how the Chinese private business sector is developing.

There are three distinct views on enterprise philanthropy: the altruistic view, the profit maximization view, and the political and institutional power view (Sánchez, 2000). The first view posits that philanthropy is motivated by a desire to benefit another, while the latter two argue that philanthropy is expected to result in strategic benefits to the enterprise. The profit maximization view of enterprise philanthropy posits that the enterprise undertakes philanthropy as long as direct economic benefit can be gained, say, in the form of tax benefit by the US enterprises carrying out philanthropic activities. While tax benefits are not a reason for philanthropy in China at present in view of the fact that philanthropy donations are limited to a very small number of charity organizations, around 3% of all the charity organizations in the country, are tax exempt, and because the rule is actually not enforced by local tax bureaus. The political and institutional power view of enterprise philanthropy posits that enterprises engage in philanthropy to maximize benefits, but not in the form of an immediate economic

return. Rather, the enterprise uses philanthropy to maximize its political return or circumvent regulations or even seek to be better protected. According to this theory, the goal of enterprise philanthropy is to cooperate or influence government officials to be better protected or to have access to some business opportunities.

Enterprises use philanthropy to help them build strategic relationships and coalitions with the government, the press, other enterprises, customers, and the public at large by bolstering their position in their environments (Meyer and Rowan, 1977). Evidence from this study suggests that Chinese enterprises that engage in enterprise philanthropy may combine the characteristics of altruistic and strategic motives. The result mainly uphold the political and institutional power view of enterprise philanthropy that Chinese private sectors donate to achieve better protection of property rights and stronger political connections.

Regarding the impact of enterprises' philanthropic activities on enterprise's performance, the analysis of Shleifer and Vishny (1994) suggests possible backdoor deals between politicians and enterprises: enterprises donate money to projects favored by politicians in return for easy access to bank loans, better investment projects, and so on. Similarly, in the US, individuals and interest groups make political campaign contributions in anticipation of receiving services in return, which include tax exemptions and the alleviation of regulatory burdens (Snyder, 1990). I argue that disadvantaged private enterprises in China donate money to obtain better political connection and secure better protection of their private property, thereby helping themselves show a better and more justifiable better enterprise performance. Anecdotal evidence suggests that China's private enterprises have found various ways of enhancing the protection of private property – what McMillan and Woodruff (2002) called "informal substitutes for the lack of market supporting institutions." In particular, the private enterprises with higher social status seem to enjoy better protection of their private property and secure better political connections with government officials, so that they can improve their social status through philanthropic activities.[2]

There is a great amount of literature on the importance of property rights protection for economic growth (Allen et al., 2005; Demirguc-Kunt and Maksimovic, 1998; Frye and Zhuravskaia, 2000; Johnson et al., 2002; La Porta et al., 1998; Levine, 1999). In China, legal protection of private property has yet to stand the test of time. Private property, when poorly protected, is subject to expropriation by various parties in the society, and the performance of private enterprises is adversely affected. Furthermore, private enterprises also face discrimination. This is because in many developing countries, the public sector remains dominant. Mindful of its inefficiency compared to the private sector, the public sector may lobby with the government to enact discriminatory policies against the private enterprises (Johnson et al., 2002).

There is also an emerging literature regarding the impact of political connections on enterprise performance (Faccio, 2006; Fisman, 2001; Johnson and Mitton, 2003; Khwaja and Mian, 2005). A general finding of this literature is that politically connected enterprises enjoy better, yet, undeserved treatments from governments or financial institutions than those who do not. It has been found that political connections help enterprises to secure favorable regulatory conditions (Agrawal and Knoeber, 2001) and access to resources such as bank loans (Faccio, 2006; Khwaja and Mian, 2005), which ultimately increases the value of enterprises (Fisman, 2001; Ramalho, 2007) or improves their performance (Johnson and Mitton, 2003). The nurturance of political connections is very important for private enterprises in China. The incentive for enterprises to establish political connections in China ultimately arises from the state control of key resources.

Owing to the continuous impact of the plan economy and the slow development of market-supporting institutions, private enterprises in China face many obstacles in running their businesses. They are often denied access to bank loans, which are largely reserved for state-owned enterprises (SOEs), or are subject to heavy government regulations or "grey fees" (Guriev, 2004; Johnson et al., 2000; McMillan and Woodruff, 2002). In addition to the problems of ill-functioning markets, the legal system in such countries is often too weak to secure property rights and enforce contracts (Frye and Zhuravskaia, 2000). In such an environment, close ties with the governments help private enterprises

overcome these market and state inefficiencies and avoid ideological discrimination.

In this article, I focus on the effect of private enterprises' philanthropy activities on their enterprises' performance. Through philanthropic activities, an owner builds political connections and enjoys better protection of his or her private property, which in turn leads to better business operating environment. That is, the private enterprises which conduct more philanthropic activities have better enterprise performance. I also examine the value of philanthropy's role in building political connections for private enterprises in China. In particular, I analyze the role of philanthropy activities in helping improve the performance of private enterprises.

Despite the economic reform in the last 30 years, discrimination toward private enterprises persists while philanthropic activities can help alleviate the situation. Through philanthropy deeds, private enterprises interact more frequently with the government officials, bank managers, and managers of SOEs, and they build up connections with key political and economic figures.

The first empirical task is to examine whether philanthropy activity has a positive effect on the profitability of private enterprises. I do so with the use of a unique nationwide survey of 3837 private enterprises in China, and find that the philanthropy activity contributes significantly to an enterprise's profitability. This finding is robust to a series of alternative specifications that control for the characteristics of enterprises. The residual power of philanthropy activity to explain enterprise performance after controlling for the characteristics of enterprises suggests that it is a driver of enterprise profitability. I then further investigate how and where philanthropy activity is important to enterprise performance. I argue that in China, the role of political connections and property right security may be more important than it would be in a mature economy, because of weak institutional features. In China, close ties with the government helps private enterprises to overcome legal and institutional failures and ideological discrimination against private enterprises.

The empirical results show that philanthropic activities affect enterprise performance through a number of mechanisms that are related to the weak institutional environment in China. In particular, I find that philanthropy activity helps enterprises to obtain loans from banks or other state institutions, and those philanthropically active enterprises are more likely to resort to the courts in business disputes, which suggests that they have more confidence in the legal system.

Finally, I find that the effect of philanthropy activity on enterprise performance is more important in regions with less-developed markets and legal systems. These findings support the view that philanthropic activities can help enterprises to alleviate the market inefficiencies that are prevalent in China. Philanthropy activity is prevalent in developed countries; however, I find that philanthropy activities are also important when the market is less developed, which seems to suggest that philanthropy activity may help the establishment of political connections and the nurturance of better protection of properties that are more significant in a weak market environment.

This article adds further evidence to the growing literature on the implications of informal substitutes of securing property rights and nurturing political connections. It is also among the first to examine the role of philanthropy activities in China. This article is also related to that of Allen et al. (2005) who argue that the rise of China's private sector is a counter-example to prevailing thought in the literature on law, institutions, finance, and growth, which that stresses the role of legal origin and institutions in finance and growth (Demirguc-Kunt and Maksimovic, 1998; La Porta et al., 1998, 1999, 2000; Levine, 1999). According to Allen et al. (2005), the key to the development of the private sector in China is personal relationships as well as the active role of local government members or local officials who enjoyed a considerable amount of political influence in rural China in the 1990s, and Bai et al. (2006) find that political connections help private enterprises to obtain bank loans. Hellman et al. (2003) find that in high-capture countries, captor enterprises bribe public officials in return for property rights and securing superior enterprise performance.

I find that property protection and political connections help private enterprises because the most important goal of a private enterprise is to maximize profit, and private enterprises in China have long been economically and ideologically discriminated

against by the government. The structure of the remainder of this article is as follows. Section "Hypotheses and empirical strategy" proposes hypotheses about the way in which property protection and political connections relate to the philanthropy activities of private enterprises, and outlines the econometric specification. Section "Data" describes the data and variables. Sections "Philanthropy activity and profitability" and "Further tests" empirically test the hypotheses and report the results, and Section "Conclusion" concludes.

Hypotheses and empirical strategy

In this section, I describe the main hypothesis on the role of philanthropy activity for private enterprises.

The first hypothesis

As has been discussed, China is characterized by the existence of institutional difficulties for private enterprises. These difficulties impose additional cost on private enterprises, and ultimately damage their performance. Property rights protection and political connections help to reduce the cost, and thus improve enterprise performance (Cull and Xu, 2005).

Hypothesis 1: In China, philanthropy activity is an important way for private sector owners to enhance protection of property rights informally and nurture political connection that enhances the performance of private enterprises.

I test the first hypothesis by estimating the profitability equations using ROA and return on equity (ROE) as the dependent variables. More specifically, I estimate the following performance Eq. 1:

$$\begin{aligned} \text{Profitability} = {} & \beta_0 + \beta_1 * \text{donation} \\ & + \beta_2 * \text{firm attributes} \\ & + \beta_3 * \text{owner attributes} \\ & + \beta_4 * \text{control} + \varepsilon \end{aligned} \tag{1}$$

where profitability is measured by ROA and ROE, and donation is the philanthropy activity dummy. The enterprise attributes represent the variables of the enterprise's total asset, leverage, age, and industry[3]; the owner attributes represent a set of control variables[4] that include the education, owner age, former SOE manager or not, former government official or not, and each regression is controlled for provincial market development index. I hypothesize that enterprise's profitability is larger when the enterprise owner donates more, that is, $\beta_1 > 0$ and significant. Estimating Eq. 1 may not be sufficient to test the validity of the first hypothesis, because $\beta_1 > 0$ could also mean that private enterprise owners have greater ability due to the reasons other than philanthropy activities to make enterprise more profitable. Thus, in the empirical test of the first hypothesis, I also need to show the alternative hypothesis is not significant.

Further hypotheses and tests

Because there are two competing hypotheses, the first hypothesis and the alternative hypothesis, I need to develop further hypotheses and tests to establish evidence of the property rights protection and political connections role of philanthropy activities. I do so by examining the mechanisms through which philanthropy activities exert a positive effect. I first develop hypotheses on the importance of philanthropy activity. Private enterprises in China face many obstacles as a result of the continuous impact of the plan economy and the slow development of market-supporting institutions, obstacles that have their roots in the government control of the economy. Private enterprises are often denied access to bank loans, which are largely reserved for SOEs (McMillan, 1997), and access to bank loans is one of the key differences between the SOEs and privately owned enterprises. State banks were not allowed to make loans to private enterprises until 1997. Although the situation has improved since 1997, private enterprises are still treated unfavorably in state-dominated financial markets. As a result, most private enterprises rely on self-financing or informal financing to start and expand their enterprises. Governments may also impose heavy regulations or other grey fees on private enterprises (Guriev, 2004; Hellman et al., 2003), and legal systems may be too weak to secure property rights and enforce contracts (Frye and Zhuravskaia,

2000; McMillan and Woodruff, 1999). These barriers are greater in China because of the indifference of the political environment to private enterprises. Close ties with the government help private enterprises to overcome these market and state inefficiencies and avoid ideological discrimination. Chinese private enterprises that are well connected with the government are more likely than those without such ties to be able to obtain favorable treatment, such as the securing of bank loans, the circumvention of government regulations, the obtaining opportunities to merge SOEs with favorable terms, and legal or non-legal informal protection for their enterprises.

Hypothesis 2: I test whether the philanthropic positive effect on property rights protection and political connections occur through mechanisms such as gaining access to the credit market, obtaining opportunities to merge SOEs and better access to the legal system.

I test this hypothesis using Eq. 1 with different dependent variables. I first test whether philanthropic activities help an enterprise to gain access to the credit market by using the value of total loans and value of loans from state-owned banks, shareholding banks, and city commercial banks as the dependent variables. Second, I test whether political connections help an enterprise to merge SOEs; I use the enterprises responses of already merged and prepare to merge SOE or not as the dependent variable. Finally, I test whether philanthropy activity gives private enterprise more confidence in the legal system by testing whether donating enterprises are more likely to resort to legal channels in business disputes.

I also examine the situations in which philanthropy activity matters most, because philanthropy activities can help enterprises in the weak institutional environment of China to circumvent institution difficulties and increase the profitability of private enterprises.

Hypothesis 3: I hypothesize that property rights protection and political connections are more important in weaker institutional environments.

However, the positive role of philanthropy activity in this respect may depend on the level of market development and the legal effectiveness of a region. If philanthropy activity helps a private enterprise by sheltering it from ideological discrimination and increasing owner's confidence in the state-controlled courts, then I would expect this positive role to diminish in regions with relatively better developed markets and legal systems. Empirical evidence shows that institutions differ dramatically across China (Brandt and Li, 2003), and this variation in institutions provides us with an opportunity to test the institutional factors behind the first hypothesis.

Hypothesis 4: If philanthropy activity does make enterprises more profitable in regions with weak institutions, then this difference should decrease as the institutions improve.

In order to test the relationship between philanthropy activity and institutional environment, I use market indices developed by Fan and Wang (2007) to measure institutional heterogeneity across regions. The indices includes three indices that measure the development of the market in a region in terms of the overall market development status (fanw), the proportion of employment in a province that is in the private sector (market) and a single index that measures the effectiveness of legal (legal) protection in a region. I argue that when the private sector is small or the state sector large, private enterprises are obliged to deal with state-owned sector, and thus connections with the government become very valuable. Moreover, a smaller private sector in a province implies greater regulation and scrutiny or even expropriation of the provincial economy by the government officials, which also makes property rights protection and political connections more important in business operation.

Again, the test is executed by estimating Eq. 1 with the introduction of three institutional indices and interaction terms between the institutional indices and philanthropy activity dummy. The hypothesis is that the estimated coefficients on the interaction terms should be negative, or, in other words, that the positive role of philanthropy activity becomes less pronounced with a more developed private sector or legal system.

Data

The enterprise data that I use in this study are taken from a nationwide survey of privately owned

enterprises, which was jointly conducted in 2006 by the All China Industry and Commerce Federation, the China Society of Private Economy at the Chinese Academy of Social Sciences, and the United Front Work Department of the Central Committee of the Communist Party of China. The sample comprises mainly the large and medium enterprises and a small portion of individual household enterprises that were drawn from 31 provinces that cover all of the political subdivisions at this level in mainland China. The data set is by far the best for studying the effect of philanthropic roles on building political connections and consolidating protection, and comprises 3837 privately owned enterprises, which represents 0.089% of the total number of privately owned enterprises nationwide (Table I).

The sampling method of the survey was multi-stage-stratified random sampling with the aim of achieving a balanced representation across all regions and industries. First, the total number of private enterprises to be surveyed was decided. Second, for each of the 31 regions in China, six cities/counties were selected; these included the capital city, one district-level city, one county-level city, and three counties. Third, the number of private enterprises to be surveyed in each region was the product of the region's number of private enterprises as a percentage of the national total and the total number of private enterprises in the survey. The same method was used to decide the number of sample firms in every city/county, and economic sector. Finally, after the determination of the number of private enterprises in every sub-sample, private enterprises were sampled randomly.

The survey on which the data set is based involved intensive interviews with enterprises, with questions about the size, history, and basic financial background of their enterprises and their family background, personal information, and occupational history. More importantly, the survey collected information on the political connections of the enterprises, such as philanthropy activity, previous work experience as a manager SOE, or as a government official, etc. There are 2,015 observations for which there is relatively complete information on the variables of interest.

A primary analysis of the data shows that most of the private enterprises donated throughout enterprise history, a full 77.9%. The percentage of enterprises with experience of managing a SOE enterprise or service as a government official is also high, at 22.2% and 17.85%, respectively. Their

TABLE I

Summary statistics

Variable	Observation	Mean	Std. dev.	Min	Max
Owner's attributes					
Education	2173	3.55	1.05	1.00	6.00
Age	2174	45.15	8.11	22.00	80.00
Former SOE manager	2182	0.24	0.43	0.00	1.00
Former government official	2182	0.17	0.38	0.00	1.00
Self-perceived overall status	2165	5.34	1.71	1.00	10.00
Self-perceived economic status	2171	5.14	1.75	1.00	10.00
Self-perceived social status	2170	5.14	1.83	1.00	10.00
Self-perceived political status	2166	5.72	2.16	1.00	10.00
Firm's attributes					
Total asset (10,000 RMB)	2178	2061.91	8476.48	1.00	242089.00
Leverage	2178	0.26	0.27	0.00	1.17
Firm's age	2140	7.21	4.42	1.00	21.00
Institutional index					
Fanw	2182	8.06	1.80	2.50	10.40
Market	2182	9.43	3.14	1.72	12.96
Legal	2182	6.71	3.02	1.49	13.07

enterprises fall into diverse industrial sectors, ranging from farming to technical services. The enterprises have an average of 172 employees, which is large compared to the average size of the country, although enterprise size varies greatly across the sample, ranging from individual household enterprises to large-scale enterprises with more than 11,500 employees.

In the sample, the mean donation is 414,105.6 RMB, and the median is only 50,000 RMB. The distribution is highly left skewed with 69.89% of donor enterprises donating $<$100,000 RMB. I argue that only those who donate a large amount of equivalent income can benefit from the philanthropy deeds and can build effective political connections. I tested with trials of different figures above median; the results are robust for the base regression, but they do seem stronger for enterprises donating larger than 100,000 RMB. I thus use this figure to construct a philanthropy activity dummy equaling to 1 for enterprises donating more than 100,000 RMB throughout history and 0 on the contrary.[5] I construct this dummy in order to easily find the enterprise behavior differences by identifying those donating a large amount or not, and by their influence on the enterprise performance.

Table II reports the characteristics of the enterprises and enterprises for donation dummy described above, respectively, and the *t*-tests of the differences between the two groups. As shown in the last column of Table II, private owners who donate more are more educated, older, and perceived inferior by themselves according to economic status, social status, and political status all ranked 1–10.[6] All of these differences are significant at the one-percent level. The enterprises that donate more are generally larger – measured total assets – older, and more leveraged. They also appear to have relatively better performance as measured by ROE, but no difference from ROA. The enterprises donating more also invested more in R&D and generated more sales from R&D investment during the previous 3 years. The grey cost measured by the total governmental fee and accommodation fee of 2005 seems to be higher for donating enterprises. The total outstanding loans, outstanding loans from the state-owned banks and from the city commercial banks are significantly larger for donating enterprises at one-percent level. In general, this simple tabulation in Table II shows that private enterprises do indeed differ with philanthropy activity status.

The three market development institutional indices, as introduced in the previous section, were obtained from the Fan and Wang (2007). Note that provincial market development varies greatly in China. Similarly, there is also a large cross-province variation in the effectiveness of the legal system. Such variation is important if I am to link these factors to the value of philanthropy activity.

In Table III, I note one high correlation. As expected, donation dummy is highly correlated with total asset. Thiis means that the larger firm tends to donation more. However, I still include the total asset variable in the regression to control the scale effect, similar to an empirical study (Li et al., 2007) on firm's performance. Actually, by deleting the variable in the regression, the significance of the main variable does not change, and the signs of coefficients remain the same. Hence, I still include the variable in the regression.

Philanthropy activity and profitability

In this section, I examine whether philanthropy activity affects enterprise profitability. I use two measures of enterprise profitability, namely, ROA and ROE. I employ ordinary least squares regressions for all the equations, and report the *t* score in parenthesis. All the regressions control for a complete set of industry dummies and market development index (Fan and Wang 2007).

The key to the test is to differentiate the first hypothesis from the alternative hypothesis. Philanthropy activity may entail property rights protection and political connections that help enterprises to relax the constraints of the operation process and thus increase profitability, but enterprises owners who donate may also possess better capability, as people with better capability are more likely to be active in building connections. Although it is generally very difficult to completely isolate the property rights protection and political connections element from the owners' capability argument, the availability of several other owner's capability and political connection variables may help us to partially differentiate the two.

TABLE II

Summary statistics: firms with large amount of donations versus firms without[a]

Variables	Without large amount donations Mean (SD) (0)	With large amount donations Mean (SD) (1)	Difference Mean (SD) (1)–(0)
	1598	575	
Owner's attributes			
Education	3.46 (0.03)	3.8 (0.05)	0.34 (0.05)***
Owner age	44.39 (0.20)	47.28 (0.33)	−2.89 (0.39)***
Former SOE manager	0.23 (0.01)	0.27 (0.02)	0.04 (0.02)*
Former government official	0.17 (0.02)	0.18 (0.01)	0.01 (0.02)
Self-perceived overall status	5.62 (0.04)	4.55 (0.07)	−1.07 (0.08)***
Self-perceived economic status	5.42 (0.04)	4.38 (0.07)	−1.04 (0.09)***
Self-perceived social status	5.4 (0.04)	4.44 (0.08)	−0.96 (0.09)***
Self-perceived political status	6.03 (0.05)	4.84 (0.09)	−1.19 (0.10)***
Firm's attributes			
Total asset (10,000 RMB)	843.48 (89.96)	5458.68 (619.40)	4615.19 (625.89)***
Leverage	0.24 (0.01)	0.32 (0.01)	0.08 (0.01)***
Firm's age	6.43 (0.10)	9.44 (0.19)	3.01 (0.22)***
ROA	0.18 (0.01)	0.18 (0.02)	0 (−0.02)
ROE	0.27 (0.01)	0.35 (0.03)	0.08 (0.03)**
R&D investment	16.46 (2.31)	121.78 (19.57)	105.32 (19.71)***
Sales from R&D for the previous 3 years	325.94 (41.32)	2423.14 (300.13)	2097.2 (302.96)***
Firm grey cost	7.70 (0.46)	35.42 (3.52)	27.71 (3.55)***
Merge SOE dummy	0.05 (0.01)	0.17 (0.02)	0.12 (0.02)***
Legal trust	0.23 (0.01)	0.37 (0.02)	0.13 (0.02)***
Total outstanding loan amount (10,000 RMB)	185.46 (14.31)	1866.77 (276.14)	1681.31 (276.51)***
Total outstanding state-owned bank loan amount (10,000 RMB)	120.81 (10.75)	1288.02 (183.15)	1167.21 (183.47)***
Total outstanding shareholding bank loan amount (10,000 RMB)	9.48 (2.49)	185.06 (64.60)	175.58 (64.65)**
Total outstanding city-commercial bank loan amount (10,000 RMB)	54.74 (6.88)	393.7 (76.34)	338.96 (76.65)***

[a]Figures in parenthesis are standard errors.

*10% significance level, **5% significance level, and ***1% significance level.

TABLE III

Pearson correlation

	Donation dummy	Total asset (ln)	Leverage	Firm age	Industry	Education	Owner age	Former SOE manager	Former government official	Self-perceived overall status
Donation dummy	1									
Total asset (ln)	0.5277⋆	1								
Leverage	0.1493	0.3220	1							
Firm's age	0.3347	0.2615	0.0449	1						
Industry	−0.1125	−0.2084	−0.1399	−0.0489	1					
Education	0.1682	0.2662	0.0425	−0.01	0.0417	1				
Owner age	0.1369	0.1685	0.02	0.2302	−0.0835	−0.1477	1			
Former SOE manager	0.0572	0.1611	0.0903	−0.0390	−0.0657	0.1233	0.2276	1		
Former government official	0.02	0.0662	0.03	−0.02	0.0678	0.2522	0.0976	0.0629	1	
Self-perceived overall status	−0.2938	−0.3679⋆	−0.1138	−0.2138	0.0911	−0.0568	−0.1364	−0.0687	−0.0111	1

⋆10% significance level.

In order to undertake this differentiation, I include in the regressions, a number of owner's capability measures of private enterprises, including their education and age. The regression results show philanthropy activity to have a positive effect on enterprise profitability. I begin by estimating the benchmark performance equation with the philanthropy activity dummy, total assets in log, leverage ratio, enterprise's age, the owner's attributes, and the industry dummies and market development index as independent variables. The estimation results are presented in the first column of Table IV.

The philanthropy activity dummy, which is the primary variable of the interest, has a positive coefficient that is significant at the one-percent level, and the owner donating more than 100,000 RMB increases an enterprise's ROA by 12 percentage points. The variables for total assets and leverage are significant in the regression, with both a larger enterprise size (as measured by total assets) and a higher leverage being associated with lower returns. Enterprise age is not an important predictor of profitability while industry dummy does explain certain portion of enterprise return.

Among all the owner's capability variables, owner's education and age are significant, and have positive effects on ROA. As I control for the owner's capability variables of the owner, the finding that philanthropy activity has a significant effect on enterprise performance is not likely to be caused by a correlation between the philanthropy activity and these owner's capability variables.

In the next test, I examine whether philanthropy activity takes effect through other channels. I conduct this test by including a number of other owner's attributes variables, including a dummy for being a former SOE manager, a dummy for being a former government official. The regression that is shown in column 2 demonstrates that the positive effect of philanthropy activity remains large even after the addition of these new variables. The coefficient of the philanthropy activity dummy is positive and significant at the one-percent level, and the magnitude of the effect remains almost constant after I control for the other political connection variables. Surprisingly, both newly added political connection variables do not have a significant effect on enterprise performance.

TABLE IV

OLS regressions examining the impacts of philanthropy on the performance of private firms

	ROA		ROE	
	1	2	1	2
Donation dummy	11.97 (5.77)***	11.84 (5.7)***	20.06 (5.62)***	19.74 (5.52)***
Firm's attributes				
Total asset (ln)	−6.25 (11.5)***	−6.19 (11.33)***	−8.79 (9.39)***	−8.58 (9.15)***
Leverage	−12.13 (3.96)***	−11.86 (3.87)***	57.18 (10.86)***	57.90 (10.98)***
Firm's age	0.04 (0.23)	0.01 (0.06)	−0.19 (0.57)	−0.28 (0.84)
Industry dummy	−0.67 (2.98)**	−0.68 (2.99)**	−1.03 (2.67)**	−1.06 (2.73)**
Owner's attributes				
Education	2.99 (3.75)***	3.19 (3.85)***	4.24 (3.09)**	4.66 (3.27)***
Age	0.21 (2.11)*	0.25 (2.4)*	0.11 (0.62)	0.21 (1.18)
Former SOE manager		−0.64 (0.29)		0.03 (0.01)
Former government official		−2.59 (1.35)		−7.77 (2.35)*
Observations	2015	2015	2015	2015
Adjusted R^2	0.0848	0.0805	0.0893	0.0867

*10% significance level, **5% significance level, and ***1% significance level.

Donation figure in the data is a historical figure which is the amount the enterprise had donated until the end of 2005 from the enterprise setup, and the dependent variable is the enterprise's ROA of 2005; the natural timing causal link removes the worry about the reverse causality issue of the main variable. The other two political connection variables, former SOE manager, and former government officials are determined before the enterprises started up their enterprises, which helps us avoid the problem of reverse causality, too.

In columns 3–4 of Table IV, I report the same set of regressions using ROE as the dependent variable. The effect of philanthropy activity dummy on ROE follows a very similar pattern to that which is shown in the first two columns of Table IV, and does not decrease when I control for other potential determinants of enterprise profitability.

In summary, the regressions in Table IV consistently show that philanthropy activity has a positive effect on enterprise profitability.

Further tests

In the previous section, I found that philanthropy activity is an important determinant of enterprise performance. However, as this finding is consistent with both the property rights protection and political connections and owner's capability hypotheses, in this section, I attempt to gain further evidence about whether property rights protection and political connections help private enterprises to perform better.

Why is philanthropy activity important?

I argued that in China philanthropy activity is an important way to get property rights protection and build political connection that helps private enterprises to gain access to the credit market, avoid extra regulations, gain opportunity to merge SOEs, and gain better access to the legal system. I can carry out more direct tests of these predications by estimating the effects of philanthropy activity on each of these factors.

First, I test Hypothesis 2 to verify whether political connections help an enterprise to gain access to the credit market, using the amount of loans from state banks and other financial institutions as the dependent variable. The regressions that are reported in Table V show that enterprises donated do have an advantage in obtaining credit from banks and especially from the state-owned banks and city commercial banks, with the philanthropy activity dummy being positive and significant. The finding that philanthropy activity

TABLE V

OLS regressions examining the impacts of philanthropy on access to bank loans

	Total loan	Total loan	State-bank loan	Shareholding-bank loan	City commercial bank loan
Donation dummy	5.35 (3.08)**	−93.57 (14.73)***	3.95 (3.53)***	0.43 (0.92)	0.98 (1.75)*
Firm's attributes					
Total asset (ln)	4.90 (10.73)***	0.84 (1.68)*	3.27 (11.15)***	0.51 (4.18)***	1.12 (7.57)***
DoDummy*Total asset		14.15 (16.12)***			
Leverage	12.99 (5.06)***	14.16 (5.86)***	8.86 (5.37)***	1.13 (1.63)	2.98 (3.6)***
Firm's age	−0.31 (1.92)*	−0.11 (0.74)	−0.23 (2.27)*	−0.03 (0.59)	−0.05 (0.94)
Industry dummy	0.21 (1.12)	0.05 (0.30)	0.18 (1.51)	−0.01 (0.20)	0.04 (0.66)
Owner's attributes					
Education	0.45 (0.65)	0.88 (1.35)	0.17 (0.38)	0.17 (0.93)	0.11 (0.47)
Age	0.14 (1.63)	0.24 (2.9)**	0.12 (2.07)*	0.03 (1.19)	0.00 (0.04)
Former SOE manager	−0.52 (0.29)	−0.55 (0.32)	−0.09 (0.08)	−0.29 −(0.60)	−0.14 (0.23)
Former government official	0.80 (0.50)	0.90 (0.59)	0.31 (0.30)	0.09 (0.21)	0.40 (0.77)
Observations	2015	2015	2015	2015	2015
Adjusted R^2	0.138	0.237	0.1512	0.0206	0.0683

*10% significance level, **5% significance level, and ***1% significance level.

helps an enterprise to borrow from banks and other financial institutions may partially explain why philanthropy activity affords private enterprises certain advantages. Interestingly, donation does not significantly help enterprises to obtain loans from shareholding banks, which is actually conforming to the reality that shareholding banks in China are the banks that do not regard political connections in credit approvals a lot but regard more on performance and risk trade off mechanisms. Surprisingly,since my previous experience as a SOE manager did not show positive effect to help private enterprises in gaining bank credit; and my previous experience as a government official did help on credit loans, I argue that the two variables are not as influencing as productive assets of the enterprises and ongoing protection and connection seeking activities such as philanthropy activity.

The regression results also show that philanthropy activity contributes positively to current loan outstanding, and that this positive effect is mainly driven by enterprise size. In column 4, I report a regression in which current bank loans is the dependent variable. The estimated coefficients of the philanthropy activity dummy and enterprise size have positive coefficients, and statistically significant, which suggests that the advantage of securing current bank loans is possibly generated by the presence of larger enterprises that are owned by donating intensive enterprises. A potential concern is that donating intensive owners obtain more loans because in their hands assets may be more productive. If this is true, then donating enterprises securing more loans is an efficient outcome. In order to examine this, I include an interaction term between total assets and the philanthropy activity dummy. If assets are more productive in the hands of donating enterprises, then this interaction term should be positive and significant. The regression result that is reported in the second column of Table V confirms that assets are more productive in the hands of donating intensive owners, as the coefficient on the interaction term is significant at one-percent level.

Second, as reported in the first two columns of Table VI, I also examine that philanthropy activity gives private enterprises more confidence in R&D investment and enterprises enjoy significantly more sales from the previous 3 years R&D investment. As reported in the third column of Table VI, I examined whether philanthropy activity lowered the grey cost of enterprise; the result is surprisingly positive and significant at one-percent level. By donating more, enterprises did not lower their governmental

TABLE VI

Regressions examining the impacts of philanthropy on R&D effects, grey cost and merging SOE opportunity

	R&D	Sales from R&D	Grey cost	Merge SOE	Legal trust
Donation dummy	47.14 (3.3)***	600.19 (3.6)***	12.58 (5.13)***	5.41 (2.75)**	4.97 (1.94)*
Firm's attributes					
Total asset (ln)	23.34 (6.24)***	452.67 (10.32)***	6.40 (10.01)***	3.52 (5.85)***	3.63 (5.4)***
Leverage	−29.19 (1.39)	57.10 (0.23)	−0.41 (0.12)	−0.16 (0.05)	−4.07 (1.08)
Firm's age	−1.63 (1.23)	−21.45 (1.38)	0.15 (0.67)	0.35 (1.76)*	0.00 (0.01)
Industry dummy	−2.92 (1.87)*	−79.27 (4.35)***	0.22 (0.84)	−0.17 (0.68)	−0.56 (2.00)*
Owner's attributes					
Education	16.11 (2.83)**	180.45 (2.7)**	2.70 (2.77)**	2.39 (2.81)**	6.10 (5.98)***
Age	0.10 (0.13)	−2.31 (0.27)	−0.07 (0.59)	−0.17 (1.40)	−0.05 (0.41)
Former SOE manager	−7.40 (0.50)	−249.69 (1.43)	−1.92 (0.76)	1.66 (0.80)	−1.56 (0.58)
Former government official	−1.10 (0.08)	−281.24 (1.82)*	−4.81 (2.14)*	1.63 (0.84)	1.35 (0.57)
Observations	1966	1951	1398	2015	2015
Adjusted/Pseudo R^2	0.0592	0.1357	0.176	0.1303	0.0646

*10% significance level, **5% significance level, and ***1% significance level.

fee and accommodation fee, while getting rewards through other channels such as more chance to merge SOEs or more informal protection and circumvention of regulations. As reported in the fourth column of Table VI, I examined the impact of donation dummy on the opportunity of private enterprise merging SOEs, the regression result is significantly positive at 5 percent level as expected. I see merging SOE as a precious opportunity in that SOEs are mostly sold cheap and with large residual economic or political values.

Finally, I create the dummy variable "legal trust" which indicates whether an owner would resort to the legal system in the event of a business dispute. When a private enterprise has a dispute in China, it can choose to seek legal assistance, resort to nonformal resolution, or simply ignore the dispute. Only enterprises that have confidence in the legal system would choose the legal channel.[7] The final column of Table VI reports the regression result with "legal trust" as the dependent variable. The result shows donating enterprises to be more likely to choose the legal method of dispute resolution, with the coefficient of donation dummy being positive and significant. On average, donating intensive enterprises are more likely to choose the legal method to resolve disputes than those donating light or non-donating enterprises.

In summary, I find some evidence that philanthropy activity exerts a positive effect on enterprise performance through a number of mechanisms that are related to the institutional environment in China. In particular, I find that donating intensive enterprises are more likely to obtain loans from state banks and other financial institutions; they invest more in R&D, and they do have more confidence in the legal system and have more chance to merge SOEs. These findings support the view that informal substitutes such as philanthropy activity indeed help enterprises to overcome market inefficiencies in China both through better protection of property rights and closer political connections.

Where is philanthropy activity important?

In this section, I examine the effect of philanthropy activity on enterprise performance in regions with different institutional environments. I test whether philanthropy activity has a greater effect on performance in regions where institutions are weaker by utilizing the three institutional indices that are described in Section Data. This test should help to differentiate the first hypothesis from the alternative hypothesis, because owner's capability should be more valuable in better institutional environments, but protection of property rights and political connections should be more valuable in weaker

institutional environments. The regression results suggest that philanthropy activity is more important to enterprise performance in provinces with unfavorable institutions.

In Table VII, I report the ROA and ROE regressions with the interactions between these market indices and philanthropy activity dummy. The institutional indices all have positive coefficients, some of which are significant at the one-percent level, which suggests that enterprises perform better in better institutional environments. More importantly, all the interaction terms have negative coefficients, with those for the market development indices and legal index being significant at least at the 10-percent level. The negative coefficients on these interaction terms mean that philanthropy activity becomes less valuable when the market is more developed or the legal environment stronger.

In summary, I find some evidence that philanthropy activity has a larger positive effect on enterprise profitability in provinces with weaker markets and ineffective legal systems. These findings support the view that philanthropy activity is an important way of property rights enhancement and political connection that provides significant economic benefits that help to overcome state and market inefficiencies in different regions of China.

What affects philanthropy activity?

In this section, I examine the determinants of owner's donation behavior after I tested the importance of philanthropy activity on enterprise's performance. As reported in Table VIII, owner's self-perceived overall status, self-perceived economic, social, and political status,[8] overall measure is the average of the following three statuses, are all significantly negatively related to philanthropy activity dummy. I argue that owners, who have lower self-perceived social rank tend to donate more to feel more protected, consolidate property rights. Other owner's personal variables, such as education and age, are as expected significant to explain the donation behavior, too. While former SOE manager and former government official tend not to donate with negative coefficients, I argue that former SOE managers and former governmental officials already enjoy political connections and feel better protected to some extent. Enterprise asset and age are significantly correlated with the donation dummy. The larger and more mature enterprises tend to need more political connections and get better protected so as to donate more and, of course, the longer the enterprise history, the more the chance that the enterprise donates.

Additional robustness check

To this end, I have demonstrated that intensive donating enterprises have better performance by using philanthropy activity dummy being larger than 100,000 RMB historically. I also tested the property rights protection and political connection hypotheses using donation amount as the dependent variable, and the results remain strong with logarithm of donation amount being significant at one-percent level and other variables' significance not affected as reported in Table IX.

Although the philanthropy data I use are the historical philanthropy donation dummy since the enterprise inception and the performance data are the latest available data, due to serial correlation issue, I still cannot rule out the reverse causality that it might be the profitable firms that donate more. In order to address the concern, I conducted the 2SLS regression using the self-perceived combined social status from the survey as the instrument in which this variable is highly correlated with donation dummy as shown in Table VIII and does not have direct correlation with firm performance. The regression result in Table X shows that the donation dummy remains positive and significant and significance levels remain constant for other control variables.

Conclusion

Enterprise philanthropy is practiced in a very unique and rudimentary form in China. Using a unique random survey data on 3837 Chinese private enterprises conducted in 31 provinces of China in 2006, I find the significant positive relationship between enterprise philanthropy donation and enterprise profitability and the result supports the political and institutional power view of enterprise philanthropy in the latest development of China.

TABLE VII

OLS regressions with different levels of market development and legal effectiveness

	ROA			ROE		
	1	2	3	1	2	3
Donation dummy	13.01 (2.99)**	13.53 (4.47)***	8.67 (3.59)***	16.46 (2.37)*	17.63 (3.65)***	13.42036 (3.48)***
Firm's attributes						
Total asset (ln)	−4.49 (14.33)***	−4.52 (14.42)***	−4.44 (14.16)***	−6.76 (13.53)***	−6.79 (13.6)***	−6.70908 (13.4)***
Leverage	−7.59 (4.45)***	−7.68 (4.49)***	−7.36 (4.32)***	32.60 (11.98)***	32.48 (11.9)***	32.94688 (12.13)***
Firm's age	−0.49 (3.66)***	−0.50 (3.7)***	−0.50 (3.69)***	−0.63 (2.92)**	−0.63 (2.96)**	−0.635 (2.96)**
Owner's attributes						
Education	2.16 (4.56)***	2.14 (4.53)***	2.10 (4.44)***	3.16 (4.19)***	3.14 (4.16)***	3.07608 (4.08)***
Institution indices						
Market1	0.94 (3.3)***			1.13 (2.5)*		
Market1 * donation	−0.72 −(1.38)			−0.55 (0.66)		
Market2		0.57 (3.39)***			0.67 (2.5)*	
Market2 * donation		−0.67 (2.24)*			−0.59 (1.23)	
Legal			0.40 (2.48)*			0.48 (1.86)*
Legal * donation			−0.23 (0.72)			−0.21 (0.42)
Observations	2058	2058	2058	2058	2058	2058
Adjusted R^2	0.1226	0.1229	0.1207	0.1147	0.1145	0.1134

*10% significance level, **5% significance level, and ***1% significance level.

TABLE VIII

Logit regressions examining the impacts of social status on philanthropy behavior

	1	2	3	4
Owner's attributes				
Self-perceived overall status	−16.95 (4.28)***			
Self-perceived economic status		−15.78 (4.14)***		
Self-perceived social status			−10.91 (3.04)**	
Self-perceived political status				−12.63 (4.06)***
Education	17.36 (2.7)**	17.46 (2.72)**	16.66 (2.6)**	16.93 (2.64)**
Age	2.53 (2.96)**	2.76 (3.23)***	2.64 (3.09)**	2.31 (2.69)**
Former SOE manager	−16.68 (1.00)	−14.58 (0.88)	−17.86 (1.08)	−18.15 (1.09)
Former government official	−18.10 (1.24)	−16.93 (1.16)	−17.86 (1.23)	−19.78 (1.36)
Firm's attributes				
Total asset (ln)	69.72 (14.99)***	69.65 (14.92)***	71.54 (15.45)***	71.18 (15.46)***
Leverage	−5.44 (0.23)	−2.70 (0.11)	−6.06 (0.26)	−7.09 (0.30)
Firm's age	11.74 (8.13)***	11.97 (8.31)***	11.93 (8.29)***	11.65 (8.07)***
Industry	0.88 (0.47)	0.74 (0.39)	0.73 (0.39)	1.00 (0.54)
Observations	2003	2008	2007	2004
Pseudo R^2	0.2871	0.2874	0.2837	0.2864

**5% significance level and ***1% significance level.

TABLE IX

Firm performance & donation robustness by using donation amounts

	ROA	ROE
Donation (ln)	40.65 (7.4)***	67.02 (6.66)***
Firm's attributes		
Total asset (ln)	−7.96 (12.72)***	−11.53 (10.06)***
Leverage	−13.14 (4.17)***	62.08 (10.77)***
Firm's age	−0.28 (1.39)	−0.69 (1.89)*
Industry	−0.55 (2.35)*	−1.03 (2.41)*
Owner's attributes		
Education	3.10 (3.58)***	4.51 (2.84)**
Age	0.19 (1.72)*	0.10 (0.49)
Former SOE manager	−2.36 (1.06)	−1.62 (0.40)
Former government official	−2.29 (1.16)	−7.85 (2.17)*
Observations	1721	1721
Adjusted R^2	0.114	0.1002

*10% significance level, **5% significance level, and ***1% significance level.

Simply put, Chinese private enterprises carried out philanthropy activities to better protect property rights and nurture political connections and in turn, lead to better enterprise profitability. The result is even stronger in institutions weaker provinces.

I also find that protection of property rights and political connections play positive roles through a number of mechanisms that are related to the weak institutional environment in China. In particular, I find that philanthropy activity is conducive to obtaining loans from state banks and city commercial banks, which gives donation–intensive enterprises a distinct advantage. I also find that philanthropy-intensive enterprises, owners have more confidence in the legal system than their less-donating counterparts, and that the philanthropic enterprise also

TABLE X

2SLS regressions examining the impacts of philanthropy on the performance of private firms[a]

	ROA		ROE	
	1	2	1	2
Donation dummy	21.71 (2.53)★	20.56 (2.38)★	39.26 (2.62)★★	37.69 (2.50)★
Firm's attributes				
Total asset (ln)	−7.29 (7.11)★★★	−7.11 (6.86)★★★	−10.84 (6.04)★★★	−10.50 (5.79)★★★
Leverage	−11.23 (3.71)★★★	−10.97 (3.62)★★★	−58.71 (11.08)★★★	59.39 (11.21)★★★
Firm's age	0.09 (0.37)	−0.11 (0.44)	0.48 (1.15)	−0.55 (1.31)
Industry dummy	−0.66 (2.94)★★	−0.66 (2.97)★★	−1.04 (2.66)★★	−1.07 (2.74)★★
Owner's attributes				
Education	2.85 (3.56)★★★	3.04 (3.61)★★★	3.91 (2.79)★★	4.27 (2.90)★★
Age	0.16 (1.62)	0.21 (1.94)★	0.48 (1.15)	0.14 (0.74)
Former SOE manager		−2.95 (1.53)		−7.85 (2.34)★
Former government official		−0.10 (0.05)		1.05 (0.28)
Observations	2003	2003	2003	2003
Adjusted R^2	0.0740	0.0793	0.0714	0.0785

[a]The instrumental variable I use is the self-perceived combined social status from the survey in that this variable is highly correlated with donation dummy as shown in Table VIII and does not have direct correlation with firm performance. ★10% significance level, ★★5% significance level, and ★★★1% significance level.

invests more on R&D and generate more sales from R&D investment which is in line with the property protection argument. As for the benefit of political connections, philanthropic enterprises tend to have greater chance to merge SOEs. These findings support the view that philanthropy activities are conducive to business success for private enterprises in China.

The analysis suggests that the development of China's private sector relies mainly on mechanisms other than legal and formal institutions. As I show, one of these mechanisms is through philanthropy activity. However, I also show that the role of philanthropy activity is not equally important in China, and that it is more important in regions with weak institutions. Conversely, when formal institutions are well developed, the role of philanthropy activity is weakened. China's market-supporting institutions are far from perfect, and are likely to remain so for some more time, and thus informal substitutes such as philanthropy activities for property rights protection and political connection nurturances are likely to remain important for private enterprises.

The study is based on a survey data so that all the limitations applicable for survey study apply. The survey data lack information on long-term financial performance of private firms so that long-term performance effect of philanthropy is not studied in this article. I only find a negative link between private owner's self-perceived social status and donation behavior, but i do not give a formal reasoning, which may need further study. Besides donation, private firms bribe, which is widely recognized in China. What is the relationship between donation and grey cost? When will private owners donate and when will they bribe, or will they donate and bribe at the same time? Is grey cost more useful institutionally, or donation more useful in the latest development of China? Also, in this article, I only concentrate on institutional explanation of philanthropy behavior of private firms, other explanations such as branding, improving owner's social status, and other reasons can also be explored.

Notes

[1] Shan et al. (2009), with the use of Wenchuan earthquake donation data of China A share firms, empirically proved that donation is conforming to economic and shareholder interests, that enterprises selling consumer products tend to donate more for better branding

awareness and that profitable firms donate more. Therefore, philanthropic activity can be a brand-supporting activity to promote firm's performance. However, in this article, I concentrate on institutional role of philanthropy activities.

[2] Private firm owners can improve their social status through political participation and philanthropic activities and finally have more opportunities to interact with the government officials, directly and indirectly influencing the implementation of government policies with respect to the protection of private property.

[3] The industry dummy that I use in the regressions equals to 1 for manufacturing firms and equals to 0 for servicing firms in the regressions. The survey classifies the private firms into 18 industries according to the 18 industrial classifications used by the National Bureau of Statistics of China. The result of the survey concentrates mainly on the manufacturing industry (42.53%) and servicing firms (44.54%). The statistics justified our measuring method of industry, where I classify the private firms only according to manufacturing-centered or servicing-centered companies. The industrial classification method is close to the reality that manufacturing-centered or servicing-centered private enterprises are the major broad division of industry adopted by Chinese banks.

[4] As suggested by McWilliams and Siegel (2000), I also tried to control firm R&D intensity measured by R&D expenditure over sales and advertising intensity measured by the number of brands over sales, the donation dummy remains significant while the R&D intensity and the ratio of the number of brands over sales are not significant. I do not have advertising expenditure data available in the survey so that I use the ratio of the number of brands over sales to measure advertising intensity instead.

[5] I also tried to redefine donation dummy equaling to 1 if the firm donated over 100,000 RMB and equaling to 0 if the firm never donated, as Brammer and Millington (2008) use high and low levels of giving, and the results are even stronger in that donation helps to promote firm's performance.

[6] Favoritism toward the state sector and persistent ideological biases against the private sector has been the fact during the past 30 year's reform of China. In fact, protection of private property was not formally written into the constitution of China until March 2004. In the absence of formal protection of private property, private enterprises face risks of expropriation as well as discrimination (Brandt and Li, 2003). Consequently, private enterprises have had difficulty in all aspects of business operations. Lack of supporting environment, private firm owners are also in the disadvantaged position comparing to managers in state sector, government officials in that they frequently need favor from others not vice versa. Thus, it is not strange that private firm owners tend not to rank themselves high in social status. The large donors are perceived inferior by themselves according to economic status, social status and political status while at the same time, they are more educated and older, and their enterprises are larger and more established. The result seems to be a paradox. There are three possible explanations, firstly, the status measure are subjective perceived measure which appeals more psychological study. Secondly, Table II is the result of simple two group t-test, which may not have the causal relationship indicated among the variables and finally from Table VIII, self-perceived low status is actually the reason the firm owners donate more.

[7] From Table VI, the donation dummy is significant at 10 percent level, which means that enterprises feels more protected legally in this aspect by giving, so that they resort more to court to protect them, which fits exactly the institutional explanation of enterprise donation behavior in China.

[8] Owner's self-perceived overall status is the arithmetic average of self-perceived economic, social, and political status of the owner.

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Jun Su
Beijing Technology and Business University,
Beijing, China
E-mail: junsuj@gmail.com

Jia He
Chinese University of Hong Kong,
Shatin, NT, Hong Kong