Theoretical Development of Corporate Charitable Giving

Subjects: Management

Contributor: Lei Xu, Xiaoning Guo, Yan Liu, Xiaochen Sun, Jie Ji

Corporate charitable giving refers to the unconditional provision of funds or materials by companies to governments or related institutions in a voluntary and non-reciprocal manner to solve social problems such as poverty, education, natural disasters and public health. Corporate charitable giving not only brings strategic resources and information channels needed for enterprise innovation, but also helps companies enhance their moral capital, improve their brand image and increase their political legitimacy.

Keywords: corporate social responsibility ; corporate charitable giving ; theoretical framework ; enterprise innovation

1. Introduction

Corporate philanthropy as a business practice has been on the rise since the early 1950s, when companies mainly made cash donations to nonprofit organizations through foundations, as an effective way to demonstrate their social responsibility (Eells, 1958; Honer, 1955) [1][2]. In the 1970s and 1980s, globalization led to a trend of increased corporate mobility, which had a negative impact on the long-term relationship between companies and the workforce. Companies begin to explore the use of corporate philanthropy to restore these labor relations (Kasper and Fulton, 2006) [3]. Since the early 1990s, companies have turned to charitable giving as a response to stakeholder demands for corporate social engagement (Marinetto, 1999) [4], and to using philanthropic initiatives to advance business interests through strategic alliances with marketing, government affairs, research and development, and human-resources functions (Porter and Kramer, 2002) [5]. Over the past few years, companies have increasingly turned to corporate philanthropy as a valuable strategy to increase their competitive advantage.

With the growing interest in corporate charitable giving among industry and academia, there is a substantial body of literature on corporate philanthropy motivation. A number of studies on the motivation of charitable giving and its impact on financial performance have yielded rich results (Porter and Kramer, 2002; J. L. Campbell, 2007; Godfrey, 2005) [5][6][7]. In the complex and changing economic environment, the improvement of innovation performance is a manifestation of the enhanced technological strength of enterprises. Due to the scarcity of resources and the limitation of technology, the resources needed for enterprise innovation often cannot be obtained on their own, so external resource supplement and policy support is crucial. The essence of corporate profit-maximization determines that the motivation of corporate charitable giving is to obtain resource compensation, reduce government regulation and obtain better political resources. However, most of the existing literature always focuses on the determinants of corporate charitable giving and the motivations for giving, while few scholars relate the impact of charitable giving to the associated economic consequences. Whether charitable giving occurs out of altruism or strategic decision-making, it can lead to a mutual exchange of resources that can boost innovation. A general overview of research on corporate-charitable-giving motives is shown in **Table 1**.

Table 1. A General Review of Research on Corporate-Charitable-Giving Motivations.

Research Theme: Concept	
Level of Analysis	**Key Ideas**
The altruism of corporate charitable giving	Altruistic motives are the main reason for corporate charitable giving. (Cowton 1987) [8] The altruistic model of corporate philanthropy is considered to be a non-strategic interpretation of corporate giving. Companies use social standards as the basis for correct, good and just social action. Firms engage in altruistic philanthropy with the single goal of helping others. (Useem 1988; Sharfman 1994) [9][10] One possible motivation is that a person actually prefers the public benefit provided by the donation. In this case, the money belonging to the charity has a utility (or reward value) that is independent of the individual's contribution. This preference for public goods can be considered "altruism", and if this is the only motivation for the donation, the behavior is called "pure altruism". (Andreoni 1989) [11] There is an ethical element to the decision to engage in corporate philanthropy that cannot be ignored. (Shaw and Post 1993) [12] Despite its noble goals, the altruistic model itself is often not a strong explanation for corporate philanthropy, even in the most diverse societies, which is because it ignores the profit maximization goals and other strategic objectives of corporations. (Neiheisel 1994) [13] Corporate philanthropy can be driven by factors such as the sense of aesthetic pleasure. (File and Prince 1998) [14] The study shows that firms who have a history of giving to charity cite altruistic motives for their behavior. (Campbell et al., 1999) [15] Pro-social behavior theorists claim that managers' behavior is also motivated by ethical norms, which is a strong reason for corporate giving. (Valor 2006) [16] Corporate philanthropy may be the result of top management's values of benevolence and integrity. (Choi and Wang 2007) [17]
The strategic nature of corporate charitable giving	Many companies which have a strong sense of corporate social responsibility, however, are turning away from traditional giving and toward a more market-driven strategic management, bottom-line approach to philanthropy. (Mescon and Tilson 1987) [18]
The strategic nature of corporate charitable giving	Profit maximization is an important motivation driving corporate charitable giving. (Navarro 1988) [19] Managers use corporate philanthropy to promote management and corporate interests. (Haley 1991) [20] From a strategic perspective, corporate philanthropy can be further divided into economic or political dimensions. (Neiheisel 1994; Young and Burlingame 1996) [13][21] When companies engage in philanthropy in a more strategic and professional way, they can not only do work that has a greater impact on society, but they can also create tangible and intangible benefits for themselves in terms of goodwill, employee morale and public support. (Collins 1995) [22] Firms engage in philanthropic activities as a means of improving the financial performance of their organizations. (Sanchez 2000) [23] While corporate violations of environmental and labor regulations can reduce their public image, charitable giving can reduce the extent of the decline. (Williams and Barrett 2000) [24] Corporate philanthropy has a positive impact on corporate financial performance because decisions about charitable giving can strategically enhance a firm's image and reputation (Porter and Kramer 2002; Godfrey 2005) [5][7] Firms are becoming increasingly strategic in their philanthropic activities. (Saiia et al., 2003) [25] Some companies are increasingly emphasizing corporate charitable giving as a strategic tool. (Patten 2008) [26] High social sentiment and politically-related economic motivations should trigger a more efficient market reaction to corporate philanthropic involvement, which could then address more directly and effectively the strategic motivation and the "insurance-like" protection property of reputational capital behind corporate philanthropy. (Gao et al., 2012) [27] Managed rent withdrawals are motivated as corporate donations. (Masulis and Reza 2015) [28] Corporate reputation effects emphasize on altruistic motivation, while strategic philanthropy focuses more on egoism. (Xu et al., 2017) [29] Corporate decisions to be charitable are not based solely on purely philanthropic motives, but depend more on the source of revenue. (Oh et al., 2018) [30] When controlling shareholders intend to transfer wealth out of the company, they may use the company's resources for charitable giving. (Chen et al., 2018) [31]

2. The Altruism of Corporate Charitable Giving

The altruistic model of corporate philanthropy (Sharfman, 1994; Useem, 1988) [9][10] is considered to be a non-strategic interpretation of corporate giving. According to this theory, companies use social standards as the basis for correct, good and just social action. Firms engage in altruistic philanthropy with the single goal of helping others, so philanthropy is considered independent of the operational pressures that generate profits. As previous researchers have pointed out (Shaw and Post, 1993) [12], there is an ethical element to the decision to engage in corporate philanthropy that cannot be ignored. Previous research has found that corporate philanthropy can be driven by factors such as the sense of aesthetic pleasure (File and Prince, 1998) [14] or altruism (Campbell et al., 1999) [15]. Firms have an obligation to engage in corporate philanthropy, rather than out of any self-interested financial considerations (Shaw and Post, 1993) [12]. In sum, there is a substantial body of literature that reveals the decision to engage in philanthropy is driven by moral obligation.

As Sharfman (1994) [10] has pointed out in the altruistic model, the essence of philanthropy is ethical. Thus, managers have an ethical responsibility to allocate the firm's resources in a way that promotes the overall welfare of society, regardless of whether these actions lead to specific results, such as increased profits or an enhanced image. Choi and Wang (2007) [17] asserted that corporate philanthropy may be the result of top management's values of benevolence and integrity. In addition to economic reasons, pro-social behavior theorists claim that managers' behavior is also motivated by ethical norms, which is a strong reason for corporate giving (Valor, 2006) [16]. From this perspective, the motivation for corporate charitable giving can be categorized as altruistic. Despite its noble goals, the altruistic model itself is often not a strong explanation for corporate philanthropy, even in the most diverse societies, because it ignores the profit-maximization goals and other strategic objectives of corporations (Neiheisel, 1994) [13].

3. The Strategic Nature of Corporate Charitable Giving

At the level of strategic nature, corporate philanthropy is strategically motivated by the intent to contribute to direct monetary benefits, in the same way as any other corporate function. From a strategic perspective, corporate philanthropy can be further divided into economic or political dimensions (Neiheisel, 1994; Young and Burlingame, 1996) [13][21]. The economics of strategic philanthropy suggests that firms engage in philanthropic activities as a means of improving the financial performance of their organizations (Sanchez, 2000) [23], while the political view is that firms engage in corporate philanthropy because of the political and institutional pressure exerted on them by key environmental actors (Neiheisel, 1994) [13].

Based on the previous research, the strategic motivation of corporate philanthropy can be explained from the following two perspectives. Firstly, increased global competition requires firms to build a competitive advantage through various channels. Corporate philanthropy can help firms gain brand recognition and loyalty, promoting themselves as "socially responsible" firms. Secondly, the elimination of government agencies and cuts to state budgets that previously supported the arts and social services have stimulated the growth of voluntary agencies and private foundations. As government support dwindles, a growing number of private voluntary organizations are trying to raise money from private firms. In turn, these firms set up foundations to pass on these requests.

In the research on corporate charitable giving, a number of studies have focused on the impact of charitable giving on corporate value, financial performance, and other factors as a means of enhancing corporate value. When charitable giving is taken as part of marketing related to firms, it is usually directly related to the improvement of corporate performance. Some scholars argue that corporate philanthropy has a positive impact on corporate financial performance because decisions about charitable giving can strategically enhance a firm's image and reputation (Godfrey, 2005; Porter and Kramer, 2002) [5][7]. At the same time, corporate charitable giving often serves as a means for firms to reduce the risks associated with resource acquisition from the perspective of resource dependence (Haley, 1991) [20].

Furthermore, firms also try to create a positive social image through charitable giving to mitigate or offset negative social impact in other areas. For instance, Williams and Barrett (2000) [24] examined the impact of corporate-charitable-giving programs on the association between the number of corporate violations of EPA (Environmental Protection Agency) and OSHA (Occupational Safety and Health Administration) regulations and their public image, and found that while corporate violations of environmental and labor regulations can reduce their public image, charitable giving can reduce the extent of the decline. Therefore, contrary to the CSR perspective (Carroll, 1991) [32], firms may increase charitable giving to maintain their positive social image, rather than devote resources to correcting negative social impact in other areas.

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