

Research on Managerial Self-interest and Corporate Donation

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Abstract—Corporate donation is not only influenced by the enterprise, but also driven by the managerial self-interest. Based on the data of Listed Companies in China from 2008 to 2017, this paper empirically examines the influence of managerial self-interest and actual controllers on corporate donations. The results show that the greater the power of management, the more corporate donations, while the existence of actual controllers can restrain the self-interest behavior of management, and alleviate the impact of agency costs on corporate donations.

Keywords—managerial self-interest; corporate donation; the management; actual controller

I. INTRODUCTION

The donation in 2008 Wenchuan Earthquake started the wave of enterprise donation in China. The motivation of enterprise donation includes strategic motivation, political motivation, management utility motivation and altruistic motivation [1]. Strategic donation, as one of the motives of corporate donation, breaks the traditional assumption of corporate social responsibility (CSR) that corporate economic goals and social goals go from one to the other. Even in the case of performance decline and loss, enterprises also have such motives of donation behavior [2-3]. The political motivation of enterprises is more widespread. Some enterprises are engaged in "political donation" for the purpose of obtaining political relations, while others are in order to obtain government subsidies [4-5]. Donation can not only play an "advertising effect", but also enhance the ability of enterprises to obtain loyal customers and employees, transmit the signal of future development prospects of enterprises, and enhance the value-added of enterprises [3, 6-8].

Since corporate donation is so important to the development of enterprises, the decision-making motivation of managers as decision makers and executives is worth exploring. According to agency theory, the goals of managers and shareholders are not always the same. The self-interest behavior of managers is reflected in a way of maximizing their own interests by sacrificing the shareholders' interest [9]. The managers of enterprises use donations to enhance their personal reputation and promote their own career development, resulting in agency problems. Based on this, this paper explores the interaction between managerial power and actual controllers, and empirically tests the influence of managerial self-interest and actual controllers on corporate donations. The contributions of this paper are as follows: Firstly, we analyze the evidence of the influence of management self-interest on corporate donation, which enriches the influence of agency theory on corporate donation. Secondly, we study the

interaction between managers and actual controllers, and further reveal the role of actual controllers in social donation.

II. THEORY AND HYPOTHESES

A. Managerial Self-interest and Corporate donations

According to agency theory, the goals of managers and shareholders are not always the same. Managers have the self-interest behavior of maximizing their own interests by sacrificing the interests of shareholders. As power increases, managers have more freedom in decision-making and thus it's more possible for them to seek rent through power. Donation, which is regarded as the highest form of CSR and one of the core contents of corporate, is not only legitimate and in line with public values, but also gains political and social status for managers as well as establishing a good image and reputation of social responsibility for the corporate [10-12]. As a result, managers often choose to realize their personal interests through corporate donations [8,15-16].

Based on the above, we propose hypothesis 1:

Hypothesis 1: Managerial self-interest promotes corporate donation.

B. Actual Controller and Corporate donations

According to the ultimate control theory, the controlling shareholders have significant control over the operation of the company. They have the motivation to supervise the managers and solve the agency problem between themselves and the managers [9]. As a voluntary social responsibility behavior of enterprises, corporate donation has no external control and can be chosen by enterprises. However, the proportion of the largest shareholder in a company without actual controller is often less than 35%. Shareholders' supervision of management is weak, and there is a "free rider" behavior among shareholders, leading to power of the company often in the hands of managers.

Based on the above, we propose hypothesis 2:

Hypothesis 2: Compared with enterprises without actual controllers, enterprises with actual controllers inhibit the influence of self-interest behavior of management on corporate donations.

III. METHODS AND VARIABLES

A. Data Collection

Since the Wenchuan earthquake in 2008, Chinese enterprises have set off a wave of charitable donations, so the time window for our study is 2008-2017. The amount of corporate donations in this paper comes from the column of "non-operating expenditure" in the notes to the financial statements of listed companies, including "donation expenditure", "public welfare donation expenditure", "non-public welfare donation expenditure" and "external donation expenditure". The data of GDP per capita in 2017 are from the National Bureau of Statistics, and the market is from Fan Gang's total score of the market process in 2009. The rest of the data are from the CSMAR database. We screened the samples as follows: (1) Excluding the listed companies in the financial industry and ST,* ST samples. (2) Excluding the observation of missing values of each control variable in the model. (3) To avoid the influence of extreme value, we processed the continuous variables with winsorizing at the upper and lower 1% level, and finally got 14867 sample observations of 3439 listed companies.

B. Measurement of Variables

Dependent Variables: Donation

Referring to the existing literature [17], we adopt the following methods to measure corporate donation behavior: the proportion of total corporate donation to business income, which can eliminate the scale effect of enterprises.

Independent Variables: Power

Referring to Jun [18] using management power to measure managerial self-interest, this paper also regards management power as an alternative variable of management self-interest. The power of management consists of two parts: one is the acquisition and strengthening of power, which comes from the distribution of power between managers and directors; the other is the restriction and supervision of power, which mainly comes from the supervision and balance of shareholders. Based on this, this paper measures management power from two aspects: control structure and ownership structure. Among them, the structure of control right reflects the position power of spatial dimension, and the core managers' concurrent positions as directors and even chairmen will strengthen their actual control over enterprises; the structure of ownership reflects the checks and balances of ownership distribution on the power of management, the higher the degree of ownership concentration, the smaller the power of management.

• Control Variables

According to previous studies [6-7,18], this paper sets the following control variables in the model: the logarithm of top three executive compensation (Msalary), cash ratio (Cashrate), independent director ratio (Indep), marketization process (Market), growth,

per capita GDP logarithm of the province where the company is located (lngdp) and the company's listing years (Age). In addition, we control the industry and the year. The specific meaning of each variable is presented in Table 1.

TABLE I THE DEFINITIONS OF THE MAIN VARIABLES.

Variable	Variable Symbol	Definitions
Corporate donation	Donation	The proportion of total corporate donations to corporate revenue.
Control structure	Structure	the control structure is 1 for CEO when he is not a director, 2 for the concurrent director and 3 for the concurrent chairman.
Ownership structure	Disp	The ratio of the second to tenth largest shareholders to the first shareholders.
Power	Power	The sum of control structure and ownership structure after standardization ¹ .
Management salary	Msalary	The logarithm of top three Executives' salaries.
Marketization Process	Market	Total Marketization Process Score of the Provinces (Municipalities, Autonomous Regions) in which the Company is located.
Cash ratio	Cash	(Monetary Fund + Transactional Financial Assets + Notes Receivable) / Current Liabilities.
Proportion of independent directors	Indep	Number of Independent Directors/Board Size.
Growth	Growth	(Operating income in period t - operating income in period t-1)/operating income in period t-1.
Logarization of GDP per capita	Loggdp	The logarithm of per capita GDP at provincial level.
Age	Age	the company's listing years

Equations

To test the hypothesis, we construct the following models:

$$Donation_{i,t} = \alpha_0 + \alpha_1 power_{i,t} + \alpha_2 realcontrol_{i,t} + \alpha_3 power_{i,t} \times realcontrol_{i,t} + \sum cv_{i,t} + \mu$$

In the model, the coefficient a1 represents the correlation between managerial self-interest and corporate donation. If a1 is significantly positive, it means that Managerial self-interest promotes corporate donation. The coefficient a3 represents the moderating role of actual controller in the above correlation. If a3 is significantly negative, it means that the actual controller can restrain the self-interest behavior of management in corporate donation. The statistical software used in this paper is stata15.0.

¹ The standardized formulas are: (x-m)/sd, m is the mean of variable x, sd is the standard deviation of variable x.

IV. RESULTS

A. Descriptive Statistics

Table 2 is sample description statistics, in which panel A is full sample description statistics and panel B is sub-sample description statistics. As can be seen from panel A, the average value of managerial power in the whole sample is -0.0355 and the median value is -0.268. The average value of actual controller is 0.973, which indicates that 97.3% of the enterprises in this sample have actual controllers. As can be seen from panel B, the power, donation and msalary of firms without actual controllers are significantly higher than the actual controls, which means that due to the weak supervision of shareholders, the management power is too large, and enterprises have the phenomenon of high donations and high salaries.

B. Regression Results

In order to test the hypotheses, the regression results of model are shown in Table 3. Column (1) shows the regression results of the hypothesis1. There is a significant positive correlation between managerial self-interest (power) and corporate donation ($a_1 = 0.001$, $P < 0.01$), indicating that managerial self-interest can improve corporate donation to a certain extent, hypothesis 1 has been verified. Column (2) shows the regression results of the hypothesis2. It can be seen that there is a significant negative correlation between managerial power and the interaction items (power_real) of actual controllers at the level of 5% ($a_3 = -0.03$, $P < 0.05$), which shows that the existence of actual controllers can inhibit the opportunism of executives and reduce corporate social donations. This conclusion is consistent with hypothesis 2.

TABLE II SAMPLE DESCRIPTION

Panel A Full sample

variables	N	mean	p50	sd	max	min
donation	14867	0.00864	0.000247	0.0488	0.420	0
power	14867	-0.0355	-0.268	1.370	3.790	-2.530
realcontrol	14866	0.973	1	0.163	1	0
msalary	14867	14.20	14.20	0.735	17.40	10.40
cashrate	14867	1.330	0.486	2.770	21	0.00332
indep	14867	0.309	0.333	0.138	0.571	0.0300
market	14867	14.40	14.40	0.593	15.80	12.80
growth	14867	0.174	0.126	0.325	1.710	-0.550
lngdp	14867	10.90	11	0.490	11.80	9.610
age	14867	12.90	13	6.730	27	0

Panel B Sub-sample

variables	Group of Actual Controllers			Group of Non-actual Controllers			Difference ²	
	N	mean	p50	N	mean	p50	Mean	p50
donation	14458	0.008	0.0002	408	0.0175	0.000387	-0.009***	-0.0002***
power	14458	-0.068	-0.294	408	1.13	1.15	-1.196***	-1.444***
msalary	14458	14.2	14.2	408	14.9	14.8	-0.696***	-0.6***
cashrate	14458	1.33	0.488	408	1.27	0.453	0.06	0.035
indep	14458	0.31	0.333	408	0.289	0.333	0.021***	0.000
market	14458	14.4	14.4	408	14.4	14.4	0.037	0.000
growth	14458	0.174	0.126	408	0.177	0.122	0.003	0.004
lngdp	14458	10.9	11	408	11	11.1	-0.120***	-0.1***
age	14458	12.8	13	408	14.1	13	-1.316***	-0.000***

² T-statistics test was used for mean test, Wilcoxon test was used for median test ,and***, *** and * showed significant levels of 1%, 5% and 10%, respectively.

TABLE III REGRESSION RESULTS³

variables	(1) donation	(2) donation
power	0.001*** (3.99)	0.004*** (3.15)
realcontrol		0.002 (0.84)
power_real		-0.003** (-2.19)
msalary	0.002*** (3.48)	0.002*** (3.75)
cashrate	0.001*** (5.38)	0.001*** (8.85)
indep	0.003 (0.70)	0.003 (0.86)
market	0.001 (1.45)	0.001 (1.46)
growth	-0.001 (-0.48)	-0.001 (-0.57)
lngdp	-0.006*** (-4.91)	-0.006*** (-4.82)
age	0.001*** (12.65)	0.001*** (16.68)
year and industry	yes	yes
Constant	-0.011 (-0.87)	-0.014 (-1.06)
Observations	14,867	14,866
R-squared	0.07	0.07

V. ROBUSTNESS TEST

In order to make the previous research conclusions robust, this paper makes the following adjustments: Firstly, considering the scale and impact of the large earthquake, which will seriously affect the level of corporate donations, we excluded the research samples of Wenchuan earthquake, Yushu earthquake and Ya'an earthquake in 2008, 2010 and 2013 in order to eliminate this interference, then re-exam the above assumptions. Secondly, like Jun [18], this paper regains Tobin Q as the agent variable of enterprise growth. Combined with the above regression results, there is no significant change in the empirical analysis, which shows that the above conclusions are robust.

VI. CONCLUSIONS

There are many motives for corporate donation, which can be divided into enterprise level and management level. At the enterprise level, donation motivation includes strategic motivation, political motivation, management utility motivation and altruistic motivation; through donation managers may seek rent for self-interest motivation, the existence of actual controllers can reduce the enterprise

donation induced by management self-interest behavior. Therefore, in the process of market-oriented reform, while promoting corporate donation, we should improve corporate governance and steadily promote the healthy and orderly development of social donation in China.

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³ Robust t-statistics in parentheses, *p<0.1, **p< 0.05, *** p < 0.01(two-tailed).