What Explains Chinese Private Entrepreneurs' Charitable Behaviors?

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Abstract

By using three waves of a nationwide survey of private firms in 2002, 2004 and 2006 from China, we examine the motivations behind Chinese private entrepreneurs' charitable behaviors. Robust evidence is found that Chinese private entrepreneurs' participation in charitable donation and anti-poverty programs is jointly motivated by economic benefit, political return, and reciprocity consideration. Moreover, private entrepreneurs' donation motivations are constrained by firm governance structure, political status, as well as the quality of market supporting institutions. In particular, we find that private entrepreneurs' charitable donation motivated by political tie cultivation declines with the effectiveness of firm governance and firm's political status while the donation induced by reciprocal motive is mostly affected by the development of financial institutions.

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1. Introduction

Along with the fast growth of the Chinese economy and the ever more important role played by its private sector, expectations have been rising for Chinese private firms and private entrepreneurs to take up more corporate social responsibilities, including charity donation (Gao, 2009; 2011). While private firms in China tend to give more to charities than their state-owned counterparts, their philanthropic givings pale in amount when compared to Western firms.[2] To help evaluate the charity giving behaviors of Chinese private firms, we first need to understand the motives behind such behaviors.

Due to data limitation, the current paper will focus on charity givings by private entrepreneurs instead of private firms. Given the country's short history of market economy and weak protection of property rights, Chinese private entrepreneurs are usually the dominant shareholder and ultimate decision-makers of their firms, thus the charitable behaviors of the private entrepreneurs are commonly intertwined with firm decisions. But this also implies that the philanthropic behaviors may not only reflect the strategic considerations of their firms but also the entrepreneurs' own personal motives.

While a large body of literature emphasizes the business motives associated with philanthropy and examines the potential rewards and benefits gained by the firm (Campbell et al., 1999; Carroll, 1979, 1999; Fry, Keim and Meiners, 1982), few

[2] Data from China Charity & Donation Information Center suggests that private firms in China contributed less than 0.5% of their total profit to philanthropy while data from Giving USA Foundation shows that American firms usually give 1%-2% of their pre-tax profit. On the other hand, according to the Ministry of Civil Affairs of the People's Republic of China, private firms in China donate much more than state-owned firms while their total pre-tax profit is almost comparable.

studies pay attention to how the individual experiences of entrepreneurs play a role in determining charitable donation. In addition, whereas the theory and practice of firm philanthropy have been widely discussed for several decades in the western world, there are only a small number of studies on the philanthropy behaviors of entrepreneurs or firms in China, especially in the private sector (Gao, 2009; Su and He, 2010).

The current study thus aims to contribute to the literature along several lines. First of all, it provides empirical evidence to the growing literature on the determinants of personal philanthropy as well as firm philanthropy. To the best of our knowledge, this is the first empirical study that explicitly examines how different incentives jointly affect Chinese private entrepreneurs' donation behaviors. Second, the study contributes to the growing literature on firm philanthropy in emerging markets by using a large research sample of Chinese private enterprises. Finally, we present evidence of associations between private entrepreneurs' charitable donation and cooperate governance and local institutions, which helps to enrich the studies on the institutional determinants of charitable behaviors.

To preview the results, we find that Chinese private entrepreneurs' participation in charitable donation and anti-poverty programs is jointly motivated by economic benefit, political return, and reciprocity consideration. Moreover, private entrepreneurs' donation motivations are constrained by firm governance structure, political status, as well as the quality of market supporting institutions. In particular, we find that private entrepreneurs' charitable donation motivated by political tie

cultivation declines with the effectiveness of firm governance and firm's political status, while the donation induced by reciprocal motive is mostly affected by the development of financial institutions.

The remainder of the paper is organized as follows: Section 2 provides an overview of the relevant literature; Section 3 describes the institutional background and develops the hypothesis; Section 4 discusses the data and empirical strategy; and Section 5 reports the main results of the econometric tests. A short conclusion is given in Section 6.

2. Literature review

Our study is closely related to several threads of literature. The first relevant body of literature is on the motivations of firm philanthropy, which both provides us with main variables of interest and informs us of important control variables. Prior research has documented three motivations for firm philanthropy: altruism, strategic consideration, and managerial utility. According to the altruistic motivation, corporate philanthropy is motivated by managers' sense of social responsibility or altruism (Edmondson and Carroll, 1999; Campbell, Gulas and Gruca, 1999; Sánchez, 2000). As a result, corporate managers would be expected to support charity even though these acts would have little or no effect on profits (Frey and Meier, 2004). In contrast, the strategic motivation focuses on the business motives associated with firm philanthropy and examines the potential rewards and benefits gained by the company (Fry, Keim and Meiners, 1982). By investing philanthropic resources in the community, corporate philanthropy may help a firm establish its brand recognition

and consumer loyalty, promote itself as a 'socially responsible' firm and ultimately increase its ability to compete with other firms (Sánchez, 2000; Zhang et al., 2009). Similarly, firms may practice philanthropy to gain and hold legitimacy and political influence, to overcome regulatory obstacles, or to seek protection from the government and the public (Seifert, Morris and Bartkus, 2003; Su and He, 2010). On the other hand, the managerial utility theory suggests that corporate benevolence is less altruistic or strategic but has more to do with managerial utility (Atkinson and Galaskiewicz, 1988; Haley, 1991; Galaskiewicz, 1997). For example, the CEOs may give corporate funds to local, well-publicized causes to achieve greater prestige, improve self-image, or get approval from social elites for themselves (Galaskiewicz, 1985). Consistent with these motivations, previous studies have found that firm characteristics such as firm size, profitability, governance structure, industry, and geographic location among other possible factors to be correlated with firm philanthropy (Amato and Amato, 2007; Crampton and Patten, 2008; Muller and Whiteman, 2009; Wang and Coffey, 1992).

Several recent studies aimed at the Chinese market suggest that Chinese enterprises engage in philanthropy partly due to the political and strategic motives. Zhang et al. (2009) find that the likelihood and size of corporate contributions by listed state-owned firms following the 2008 Sichuan earthquake are lower than those of private firms, which are more strategically motivated and have more incentives to promote firm profit through charitable giving. In line with the earlier results, Zhang et al. (2010) further document that firm advertising intensity is positively associated

with both the probability and the amount of corporate giving. Based on the survey data on 3837 Chinese private enterprises, Su and He (2010) argue that Chinese private enterprises carried out philanthropic activities in order to better protect property rights and nurture political connections, which mainly upholds the strategic motive view of philanthropy.

The current paper also relates to the strand of literature that emphasizes reciprocal motives in individual charitable giving. As documented in prior studies, reciprocity exists as a basic element of human behaviors and has powerful implications for many economic domains (Berg, 1995; Fehr and Gächter, 2000; Sethi and Somanathan, 2003). There is a substantial amount of evidence from both laboratory experiments and field experiments providing support for the reciprocal motive. Based on a field experiment conducted at a national park in Costa Rica, Alpizar, Carlsson and Johansson-Stenman (2008) find that giving subjects a small gift before requesting a donation significantly increases the likelihood of a positive contribution. Falk (2007) studies how people respond to donation after a gift has been given. He finds a strong and significant effect of a gift, which is included in the donation letter. In contrast to the no gift case, the relative frequency of donations increased by 75 percent for a large gift and by 17 percent if a small gift was given in advance. Unlike previous research which mainly depends on experimental data, this paper extends the reciprocity literature by providing an empirical study on charity giving using firm level survey data.

As we will use the initial access to bank credit to measure the reciprocity motive

for donation, the third relevant body of literature is on the consequences of financial access constraints. Many studies provide evidence that private firms in China have been discriminated against in the financial market (Brandt and Li, 2003; Cull and Xu, 2003). Compared with state-owned firms, private firms are less likely to obtain a loan, are required more loan collateral and pay higher costs. Previous research also intensively discusses how Chinese private firms respond to restricted financial access. Allen, Qian and Qian (2005) suggest the reliance on informal financing such as borrowing from family members, relatives, and friends as the main solution. Ge and Qiu (2007) find non-state owned firms use more trade credit for the purpose of financing than state owned firms. Long and Zhang (2011) provide evidence that industrial clustering helps firms to reduce their reliance on external financing for working capital by making the provision of trade credit among firms easier. Although many studies suggest informal financing channels as an effective way to support the growth of the private sector in China, there has been relatively little work investigating the social implications of financial access constraints. This paper explores a potential unintended consequence of restricted financial access, i.e., the impact on charity giving by private entrepreneurs.

3. Background and hypotheses development

3.1 Background

As the world's largest emerging market, China has seen its number of business firms growing at a breathtaking rate, especially that of private firms. Since their revival in 1978, private firms in China have grown in number from nearly

non-existence to over 1 million, registering 31.1 trillion RMB in terms of asset by 2012.[3] In 2011, private firms employed over 100 million people and produced nearly one third of China's industrial output.[4] The speed of growth for the private sector has far outpaced that of the public sector.

Despite its fast growth in private firms, corporate social responsibility was not taken seriously in China until China joined in the World Trade Organization (WTO) in 2001. In the early period of the reforming era, the main aim was to achieve fast economic growth, while corporate social responsibilities such as pollution control, product safety and so on were overlooked to a large extent (Gao, 2009). It was not until recently that the Chinese government began to promote and advocate various corporate social responsibility practices by issuing a series of regulations and guidelines. In 2006, for example, the Shenzhen Stock Exchange issued the "Social Responsibility Guidelines for Listed Companies" to encourage listed firms to develop corporate social responsibility reports. Urged by both the government and the society, private entrepreneurs and firms in China are increasingly involved in social activities including charity giving. More and more private entrepreneurs now make donations to help the poor and the disabled, to support education, and to fund sports and so on.

However, there are glaring gaps in our understanding of private entrepreneurs' charity behaviors. On the one hand, although donations by private firms and private entrepreneurs have increased rapidly over the years and Chinese private firms tend to give more donations relative to their revenue than Chinese SOEs, the amount of

3 Source: State Administration for Industry and Commerce of the People's Republic of China

4 Source: China Statistics Yearbook 2012

giving pales in comparison to their Western counterparts. One the other hand, while most studies on Chinese philanthropy have focused on the strategic considerations of private firms, over 70% of private entrepreneurs interviewed in the 2002 national survey of private entrepreneurs attribute returning to society as one of the most important incentives to participate in charity[5]. How do strategic incentives compare with reciprocity motives in explaining Chinese private entrepreneurs' charitable behaviors? We empirically explore the various motives behind these behaviors in the sections that follow.

3.2 Hypothesis development

As managers in other countries, one of the most important incentives for Chinese private entrepreneurs to participate in charity is economic consideration. By investing philanthropic resources in the local community, Chinese private entrepreneurs help their firms to establish brand recognition and consumer loyalty, promote themselves as ''socially responsible'' firms and ultimately increase the ability to compete with other firms (Zhang et al., 2009). Chinese private entrepreneurs' charitable participation can also help maximize profits by eliminating firm taxes, which are typically used as a policy instrument for promoting charity by the Chinese government. In addition to immediate economic returns, another important incentive for Chinese private entrepreneurs to participate in charity is political consideration. As a transition economy, the market supporting institutions in China are relatively weak.

[5] In the private enterprise survey conducted in 2002, private entrepreneurs were asked to rank three of the most important reasons why they donated to charity from the following options: giving back to society, giving back to the local government, giving back to hometown, to cultivate connection, to improve the reputation of their firms, or it's a special assessment assigned by the government. 77% of private entrepreneurs choose among their top three reasons, giving back to society, giving back to the local government, or giving back to hometown.

By actively participating in donation and other charitable activities, Chinese private entrepreneurs can cultivate political connections with local government, which helps them to secure key economic resources such as loan and business licenses, to seek property right protection, to gain and hold legitimacy and political influence, and to overcome regulatory obstacles. Thus we propose our first hypothesis, which is also in line with the existing literature (Gao, 2011; Su and He, 2010; Zhang et al., 2009):

Hypothesis 1: Chinese private entrepreneurs' participation in charity is motivated by economic benefit and political returns.

In addition to strategic considerations, Chinese private entrepreneurs' charitable behaviors may also be motivated by reciprocal incentives, that is, to give back to society, as evidenced by their responses to the question on what motivated their charitable givings in the 2002 survey[6]. Because of government control over the allocation of financial resources, private firms in China are often denied access to bank loans and discriminated against by state-owned banks (Brandt and Li, 2003; Cull and Xu, 2003). Owing to the high costs in building up a factory and purchasing machinery, it is difficult for many private entrepreneurs with limited financial resources to start and operate their own businesses (Banerjee and Newman, 1993). Therefore, the support of formal financing to private firms can greatly help private entrepreneurs to establish their firms by alleviating financing constraints. In China with its underdeveloped financial institutions, the initial loan access is thought to be extremely important in private entrepreneurs' early careers, which is sometimes

[6] See footnote 4 above and the related discussion in the text.

termed as “the first barrel of gold”.

The reciprocity theory, combined with the limited formal access, implies that loans from the bank can prompt entrepreneurs’ philanthropy in a country such as China. In a financial system where the loan interest rate is controlled to subsidize SOEs, such as the one in China, a bank loan itself is a valuable resource and is equivalent to a lot of benefit. In other words, private entrepreneurs that obtain bank loans receive a “gift” from the government, which implies that those private entrepreneurs who get an initial credit from the bank would be more likely to participate in charitable giving in order to return to the society, as has been widely found in the anonymous reciprocity experiments (Alpizar et al., 2008). Therefore, we posit that the private entrepreneurs that got a loan from banks when starting his business would be more likely to engage in philanthropy for the reciprocity motive, and accordingly, we propose our hypothesis as follows:

Hypothesis 2: Chinese private entrepreneurs receiving bank loans at the time of firm founding are more likely to participate in charitable donation and anti-poverty programs than private entrepreneurs without such bank credit.

While the above discussion only considers the role of the private entrepreneur in determining charitable donations, as the top executive and the largest shareholder of their firm, the entrepreneur’s personal incentives in charity giving are also constrained by both their firm and their local institutions. As argued above, Chinese private entrepreneurs’ charitable behaviors involve personal motives as well as strategic incentives. For example, they may give corporate funds to local, well-publicized

causes to achieve greater prestige, improve self-image, or get approval from social elites. In addition, they may use their positions to express personal altruism or reciprocity motive at the expense of other shareholders.

But private entrepreneurs' personal incentives in charity are constrained in several ways. First, effective cooperate governance, for example, the presence of board of directors, can provide checks and balances on entrepreneurs' behaviors when they deviate from maximizing firm profit. Thus we expect that private entrepreneurs' donation motivated by personal motives declines in firms with better cooperate governance. Similarly, compared with small firms, large firms tend to have better governance structure and monitoring mechanism, which constrains private entrepreneurs' participation in personal motivated charity. Second, entrepreneurs' participation in charity may also be affected by firm's political status. In firms that have local communist party committees (and thus additional communication channels with the local government), private entrepreneurs will have less incentive to cultivate personal political connection by investing in local charity. Third, entrepreneurs' incentive to participate in charity probably varies with firm origins. Compared with de novo private firms, firms privatized from former state owned firms have better access to bank loans and other key economic resources due to their original relationships with the government. Last but not least, the charitable behaviors of Chinese private entrepreneurs are deeply rooted in local institutional background. In areas with less developed financial market, private entrepreneurs will have more incentives to participate in social charity to cultivate political connections that may help them

overcome the absence of market supporting institutions. Consequently, we propose our third hypothesis as follows:

Hypothesis 3: Chinese private entrepreneurs' participation in charitable donation is constrained by firm governance structure, size, origin, and local institutional quality.

4. Empirical strategy and data

4.1 Model specification

First, we estimate the following regression to test the impact on entrepreneurs' charitable donation of various incentives, including economic benefit, political return, and reciprocal consideration. While the economic and political motives are mainly rooted in corporate considerations, the reciprocity incentive is probably largely driven by personal considerations. We also control for a series of firm attributes and entrepreneur characteristics that are potentially correlated with entrepreneurs' donation.

$$\mathrm{Y}_{ijt} = \beta_0 + \beta_1 \text{entrepreneur incentive}_{ijt} + X_{ijt}\delta + \varepsilon_{ijt} \quad (1)$$

where Y_{ijt} is the dependent variable for entrepreneur *i* in province *j* in year *t*, which we use three indicators to measure. The first two are dummy variables indicating whether the entrepreneur participates in any charitable donation or the anti-poverty program, namely, the *Guangcai Program*.[7] The third one is how much money the

[7] The *Guangcai* Program is initiated and implemented by the Chinese private entrepreneurs for alleviating poverty in 1994. Aiming at giving long-awaited help to underprivileged people and areas, the program works at promoting education, building bridges and highways, setting up enterprises and things like that.

entrepreneur has donated since his firm was registered as private enterprise.[8] For entrepreneur's incentive, we first use the percentage of share held by the entrepreneur in the firm to approximate economic incentive. The reason is that the entrepreneur will gain more from the economic benefit generated by donation in the firm if he holds a larger percent of share. Second, we use whether the entrepreneur holds membership in two powerful political bodies (the People's Congress and the Chinese People's Political Consultative Conference) to measure entrepreneur's incentive in cultivating and maintaining political connection. Finally, as we argued above, we use whether the entrepreneur got an initial loan from the bank when he started his business to capture entrepreneur's reciprocal incentive[9]. Since the initial loan was given when the private entrepreneur started his firm, the estimation coefficient is less likely to suffer from reverse causality[10]. And X_{ijt} is a set of control variables including the entrepreneur's gender, education level, working experience, firm size (measured by firm asset), firm age, profitability (measured by ROE), and a dummy variable indicating whether there is board of directors in the firm. For all the regressions, we control for industry, year and provincial fixed effects.

4.2 Data

8 Since the amount of donation was reported by the private entrepreneur, there are some outliers in the data. We exclude these outliers when we use the amount of donation as dependent variable but include these extreme values when we use donation dummy as dependent variable. Following the econometric literature (Wooldridge, 2009), we plus the amount of donations by 1 Yuan and take the logarithmic form when we use it as an explained variable since only relatively few firms have no donations. A potential concern is that private entrepreneurs may not clearly remember how much he has donated. Given this limitation, the results from using donation amount should be interpreted with cautions. We thank an anonymous referee for pointing out these issues.

9 To reduce the concern of revers causality, we use initial loan at the times of firm funding rather than current loan. Unfortunately, the data doesn't have detailed information on the amount of initial loan. As a result, we have to use initial bank loan dummy rather than loan amount.

10 Nevertheless, the private entrepreneurs' donation before and after he founds his firms might have some correlation. Thus, the reader is advised to take caution in interpreting the related findings. We thank an anonymous referee for pointing out these issues.

The firm level data used in this study are based on three waves of a nationwide survey of private entrepreneur, which were conducted in 2002, 2004 and 2006 jointly by the All China Industry and Commerce Federation, the China Society of Private Economy at Chinese Academy of Social Sciences, and the United Front Work Department of the Chinese Communist Party (the CCP). And each survey covers 0.055% of the private firms in China. The sampling method used in the survey was multistage-stratified random sampling in order to achieve a balanced representation of private firms across all regions and industries. First, the total number of private enterprises to be surveyed was determined. In the second step, six cities or counties were selected for each province, including the capital city, one prefecture-level city, one county-level city, and three counties. Next, the number of private enterprises to be surveyed in each province was determined by the product of share of local private enterprises in national total with the national sample size. The number of firms in each city, county and sector was likewise decided. Thus the survey sample comprises of both large firms and individual household enterprises drawn from 31 provinces in mainland China.

The survey was carried out through detailed interviews with firm owners, inquiring information about entrepreneur attributes such as family background, human capital, political connections, and occupational experiences, as well as firm attributes such as size, location, firm age, basic financial background and governance structure. More importantly, the survey also collected information on entrepreneurs' participation in charitable donation and anti-poverty programs. By far, this data-set is

the best for studying the effects of financial access on private entrepreneurs' philanthropic participation in China. Table 1 gives the summary statistics of the main variables from the data set.

Table 1 Summary statistics

Variable	Observations	Mean	Standard Deviation	Min	Max
log(donation) (Yuan)	7167	7.6045	4.0805	0	11.5129
Donation dummy	9354	0.8492	0.3579	0	1
Guangcai dummy	9314	0.6986	0.4589	0	1
Initial bank loan dummy	9683	0.2560	0.4365	0	1
Privatized dummy	6484	0.1949	0.3962	0	1
Current bank loan (ten-thousand Yuan)	7578	50.9413	109.1409	0	500
Entrepreneur's share (%)	8792	71.1084	26.7056	1	100
Political connection	10252	0.2840	0.4510	0	1
CCP committee	8955	0.3081	0.4617	0	1
log (asset) (ten-thousand Yuan)	7336	5.4681	1.7537	0	12.4784
Firm age	9691	6.8016	4.3063	1	29
ROE	6365	0.2955	1.2292	-10.35	40
Female dummy	10080	0.1307	0.3370	0	1
Education	10064	13.4735	2.9730	6	19
Cadre dummy	10252	0.2401	0.4271	0	1
Family wealth (ten-thousand Yuan)	5426	49.8117	56.7567	0.0198	190
Board of directors dummy	9085	0.6092	0.4879	0	1
Financial index 1(%)	93	6.4377	2.8117	0	12.22
Financial index 2 (%)	89	5.3873	2.4742	0	11.72

Notes: Data source: nationwide survey of private firms in 2002, 2004 and 2006 in China
Variable definition (see Appendix A)

A preliminary analysis of the data shows that a substantial proportion of private entrepreneurs got a bank loan when establishing their firms (25.6%). As the loan was given at the establishment of the business, our study is less likely to suffer from reverse causality that would arise if the entrepreneurs had got a loan because of his involvement in charity. Consistent with the finding of Zhang et al. (2009), we find that the majority of private entrepreneurs participate in donation and *Guangcai*

Program, 84% and 69% respectively. Quite a few of private firms (19%) were restructured or privatized from former state-owned enterprise or collective enterprises. Detailed information is reported in the data-set on entrepreneur characteristics.

On average, the entrepreneurs have more than 13 years of education and 13% of them are female. The data also shows that a large percentage of entrepreneurs have various forms of political connections with the government or with the party. Specifically, 24% have served as government cadre. And nearly one third of the entrepreneurs hold memberships in the People's Congress (PC) or the Chinese People's Political Consultative Conference (CPPCC) at various levels, which are the most powerful political bodies beside the executive branch in China. With respect to governance structure, 60% have set up the board of directors.

5. Main results

In this section, we empirically test how Chinese private entrepreneur's charitable donation is determined. We employ ordinary least squares regressions for the amount of donations and logistic regressions for the likelihood of firms' participation in charity, and report the standard errors in parenthesis.[11] All of the regressions control for a complete set of provincial, year and industry dummies.

5.1 Entrepreneur incentive and charity participation

Table 2 presents the results of the baseline estimations controlling for strategic motives for charity giving. In columns 1-3 we control for entrepreneur characteristics and in columns 4-6 we further control for firm characteristics. The regression results

[11] We also estimate the likelihood of firms' participation in charity by OLS and find the results are similar to those from the logistic regression.

are largely consistent with our theoretical hypotheses. First, we find that entrepreneur's shareholding is significantly and positively associated with private entrepreneur's participation in donation and *Guangcai program*, which suggests that economic benefit is an important factor in determining Chinese private entrepreneurs charitable behaviors. Specifically, a 10 percentages increase in entrepreneur's shareholding will boost the likelihood of participation in donation and *Guangcai* program by 0.7 and 1.2 percentage respectively. Second, the regression results show that entrepreneur's political connection is positively correlated with charitable donation. Being a member of People's Congress or the Chinese People's Political Consultative Conference raises the probability of making donation by 8%, which suggests that Chinese private entrepreneurs' charitable behaviors are strongly motivated by political consideration.

Interestingly, private entrepreneurs who got loans when starting their firms donate significantly more than those without initial loans. Specifically, an initial bank loan significantly increases the probability of participation in donation and *Guangcai* program by around 3.6% and 5.3%, which suggests that Chinese private entrepreneurs' charitable behaviors are partly based on the reciprocal incentive in addition to strategic consideration. The regression results also show that Chinese private entrepreneurs' charitable behaviors are related with the characteristics of their firms. In particular, private entrepreneurs in relatively larger firms, older firms, and more profitable firms are more likely to make donations.

One potential concern with our results is the possibility that a private

entrepreneur is more active in charitable donations is because he has more resources. To address this issue, we perform our regressions in Table 2 by including the total amount of loans currently borrowed from banks and family wealth of the entrepreneurs. As shown in columns 7-9, although the amount of family wealth is positively correlated with donations, the magnitude of the partial correlation between entrepreneur' economic incentive, political incentive, and reciprocal incentive and charitable participation is largely reserved.

Table 2 Baseline regressions

VARIABLES	(1) log(donation)	(2) Donation dummy	(3) *Guangcai* dummy	(4) log(donation)	(5) Donation dummy	(6) *Guangcai* dummy	(7) log (donation)	(8) Donation dummy	(9) *Guangcai* dummy
Entrepreneur's share	0.0103***	0.00720***	0.00657***	0.0109***	0.00745***	0.00779***	0.00546***	0.00317	0.00586**
	(0.00205)	(0.00148)	(0.000918)	(0.00217)	(0.00162)	(0.00138)	(0.00197)	(0.00229)	(0.00232)
Political connection	2.017***	2.304***	1.522***	1.221***	1.962***	1.046***	1.280***	2.320***	0.770***
	(0.143)	(0.118)	(0.0834)	(0.147)	(0.219)	(0.108)	(0.187)	(0.391)	(0.119)
Initial bank loan	0.598***	0.475***	0.413***	0.457***	0.461***	0.362***	0.648***	0.704***	0.463***
	(0.104)	(0.0990)	(0.0986)	(0.117)	(0.112)	(0.109)	(0.129)	(0.166)	(0.133)
Female	-0.551***	-0.328***	-0.191**	-0.142	-0.178	0.0885	-0.199	-0.168	-0.0329
	(0.141)	(0.106)	(0.0924)	(0.186)	(0.164)	(0.111)	(0.236)	(0.199)	(0.146)
Education	0.0183	0.00820	0.00865	-0.0119	-0.0212	-0.0272**	0.00247	-0.0186	-0.00872
	(0.0228)	(0.0155)	(0.0105)	(0.0255)	(0.0190)	(0.0110)	(0.0281)	(0.0199)	(0.0147)
Former cadre	-0.0119	-0.0270	-0.0834*	-0.334**	-0.277***	-0.162**	-0.647***	-0.468***	-0.226**
	(0.110)	(0.0662)	(0.0489)	(0.142)	(0.107)	(0.0740)	(0.225)	(0.157)	(0.102)
log(asset)				0.532***	0.344***	0.275***	0.465***	0.241***	0.248***
				(0.0386)	(0.0431)	(0.0281)	(0.0488)	(0.0695)	(0.0524)
Firm age				0.166***	0.171***	0.106***	0.187***	0.208***	0.113***
				(0.0312)	(0.0383)	(0.0209)	(0.0298)	(0.0417)	(0.0186)
ROE				0.201***	0.390***	0.137*	0.170***	0.235**	0.0634
				(0.0710)	(0.0995)	(0.0777)	(0.0598)	(0.113)	(0.0772)
Board of directors				0.226*	0.231**	0.0997	0.0660	0.125	0.0673
				(0.127)	(0.104)	(0.0638)	(0.167)	(0.145)	(0.112)
Current loan							0.000160	0.000501	-1.85e-05
							(0.000135)	(0.000361)	(1.75e-05)
Family wealth							0.00376***	0.00484***	0.00112
							(0.00121)	(0.00184)	(0.000980)
Constant	6.890***	1.739***	1.559***	3.582***	-0.634**	-0.0220	3.582***	-0.634**	-0.0220

	(0.328)	(0.240)	(0.234)	(0.423)	(0.312)	(0.257)	(0.423)	(0.312)	(0.257)
Observations	6,063	7,949	7,935	3,777	5,080	5,084	3,777	5,080	5,084
R-squared	0.121	0.147	0.149	0.189	0.233	0.189	0.189	0.250	0.172

Notes: Standard errors are clustered at provincial level and reported in parentheses.

Significance levels 0.1, 0.05 and 0.01 are noted by *, **, and ***, respectively.

The results for the total amount of donation and the likelihood of firms' participation in charity are from OLS and logistic regressions, respectively.

All regressions control for industrial, year, and provincial dummies.

Overall, the results in table 2 suggest that Chinese private entrepreneurs' charitable behaviors are motivated by economic benefit, political return, and reciprocal incentive. Therefore, only focusing on strategic consideration is not adequate to explain Chinese private entrepreneurs' charitable behaviors.

5.2 Corporate governance and charity participation

As we argued in the hypothesis section, private entrepreneurs' personal incentives in charity are constrained in several ways. First, effective cooperate governance can provide checks and balances on entrepreneurs' behavior when they invest firm fund on social charity to pursue their own personal objectives. To test this hypothesis, we first interact entrepreneurs' incentives with cooperate governance measure, that is, the presence of board of directors, and report the result in table 3. As expected, private entrepreneurs invest significantly less in charitable donation to cultivate political connections in firms with board of directors. We then interact entrepreneurs' incentives with firm size as large firms tend to have better cooperate governance and report the result in columns 4-6 of table 3. Consistent with our prediction, private entrepreneurs in larger firms donate less to charity motivated by political consideration and reciprocal incentive. In summary, the regression results in table 3 show that cooperate governance quality significantly constraints Chinese

private entrepreneurs' charitable participation.

Table 3 Entrepreneur charity and corporate governance

VARIABLES	(1) log(donation)	(2) Donation dummy	(3) *Guangcai* dummy	(4) log(donation)	(5) Donation dummy	(6) *Guangcai* dummy
Entrepreneur's share	0.0131***	0.00465	0.00753***	0.0223**	0.00466	0.00949*
	(0.00344)	(0.00285)	(0.00269)	(0.00899)	(0.00899)	(0.00530)
Political connection	1.419***	2.276***	1.292***	3.894***	3.073***	1.352***
	(0.154)	(0.284)	(0.161)	(0.472)	(0.827)	(0.325)
Initial bank loan	0.537***	0.429***	0.199	1.431***	0.997*	0.821***
	(0.163)	(0.151)	(0.211)	(0.462)	(0.539)	(0.267)
Entrepreneur's share* Board of directors	-0.00409	0.00520	0.000399			
	(0.00524)	(0.00384)	(0.00382)			
Political connection* Board of directors	-0.360**	-0.503	-0.380*			
	(0.158)	(0.335)	(0.222)			
Initial bank loan* Board of directors	-0.155	0.0736	0.298			
	(0.233)	(0.218)	(0.229)			
Entrepreneur's share*log(asset)				-0.00217	0.000561	-0.000321
				(0.00158)	(0.00163)	(0.000972)
Political connection* log(asset)				-0.479***	-0.194	-0.0526
				(0.0818)	(0.139)	(0.0478)
Initial bank loan* log(asset)				-0.186**	-0.107	-0.0855**
				-0.00217	0.000561	-0.000321
Female	-0.133	-0.181	0.0950	-0.160	-0.177	0.0906
	(0.186)	(0.165)	(0.110)	(0.183)	(0.166)	(0.112)
Education	-0.0110	-0.0216	-0.0272**	-0.00810	-0.0214	-0.0272**
	(0.0255)	(0.0194)	(0.0110)	(0.0255)	(0.0189)	(0.0111)
Former cadre	-0.331**	-0.269**	-0.157**	-0.358**	-0.279***	-0.167**
	(0.143)	(0.108)	(0.0751)	(0.146)	(0.106)	(0.0735)
log(asset)	0.534***	0.344***	0.277***	0.689***	0.379***	0.304***
	(0.0384)	(0.0432)	(0.0284)	(0.0470)	(0.0607)	(0.0286)
Firm age	0.165***	0.171***	0.105***	0.162***	0.171***	0.105***
	(0.0312)	(0.0386)	(0.0210)	(0.0312)	(0.0386)	(0.0209)
ROE	0.202***	0.388***	0.137*	0.192**	0.392***	0.137*
	(0.0714)	(0.0996)	(0.0780)	(0.0763)	(0.102)	(0.0777)
Board of directors	0.640	-0.103	0.0589	0.234*	0.232**	0.101
	(0.416)	(0.290)	(0.260)	(0.124)	(0.105)	(0.0636)
Constant	3.299***	-0.402	0.000713	1.857**	-0.593	-0.302
	(0.452)	(0.394)	(0.374)	(0.837)	(0.703)	(0.521)
Observations	3,777	5,080	5,084	3,777	5,080	5,084
R-squared	0.190	0.234	0.190	0.197	0.234	0.190

Notes: Standard errors are clustered at provincial level and reported in parentheses.

Significance levels 0.1, 0.05 and 0.01 are noted by *, **, and ***, respectively.

The results for the total amount of donation and the likelihood of firms' participation in charity are from OLS and logistic regressions, respectively.

All regressions control for industrial, year, and provincial dummies.

To test the hypothesis that private entrepreneurs in firms with better political status have less political incentive to donation, we interact entrepreneurs' incentives with whether the firm has established a CCP committee which serves as an important connection between private firms and the ruling communist party. The regression results are reported in table 4. As shown in columns 1-3 of table 4, although political consideration motivates Chinese private entrepreneurs to donate more, but the effect is substantially smaller in firms with CCP committee.

Table 4 Entrepreneur charity, firm political status, and firm origin

VARIABLES	(1) log(donation)	(2) Donation dummy	(3) *Guangcai* dummy	(4) log(donation)	(5) Donation dummy	(6) *Guangcai* dummy
Entrepreneur's share	0.0153***	0.00914***	0.0107***	0.0158***	0.0103***	0.00824***
	(0.00321)	(0.00224)	(0.00194)	(0.00397)	(0.00324)	(0.00248)
Political connection	1.547***	2.193***	1.158***	1.558***	2.005***	1.078***
	(0.168)	(0.205)	(0.123)	(0.262)	(0.395)	(0.185)
Initial bank loan	0.540***	0.512***	0.398***	0.715***	0.605***	0.603***
	(0.153)	(0.139)	(0.112)	(0.212)	(0.187)	(0.127)
Entrepreneur's share*CCP committee	-0.0125**	-0.00418	-0.00887			
	(0.00540)	(0.00676)	(0.00585)			
Political connection* CCP committee	-1.290***	-1.085**	-0.509**			
	(0.278)	(0.485)	(0.229)			
Initial bank loan* CCP committee	-0.486*	-0.427	-0.198			
	(0.259)	(0.355)	(0.183)			
Entrepreneur's share*Privatized				-0.00471	0.00295	0.00383
				(0.00904)	(0.00788)	(0.00517)
Political connection* Privatized				-0.311	-0.549	-0.267
				(0.444)	(0.911)	(0.353)
Initial bank loan*Privatized				-1.099***	-0.910***	-0.324
				(0.351)	(0.339)	(0.231)
Female	-0.126	-0.161	0.0950	-0.235	-0.162	0.0632

	(0.185)	(0.166)	(0.114)	(0.219)	(0.194)	(0.153)
Education	-0.0129	-0.0238	-0.0265**	-0.0212	-0.0227	-0.0226*
	(0.0255)	(0.0196)	(0.0114)	(0.0298)	(0.0219)	(0.0128)
Former cadre	-0.377**	-0.299***	-0.208***	-0.393*	-0.296**	-0.0920
	(0.153)	(0.112)	(0.0712)	(0.203)	(0.134)	(0.0958)
log(asset)	0.458***	0.286***	0.229***	0.526***	0.289***	0.261***
	(0.0363)	(0.0425)	(0.0281)	(0.0600)	(0.0537)	(0.0353)
Firm age	0.163***	0.170***	0.103***	0.246***	0.243***	0.122***
	(0.0297)	(0.0375)	(0.0204)	(0.0356)	(0.0375)	(0.0193)
ROE	0.188**	0.374***	0.124*	0.193**	0.539**	0.124
	(0.0682)	(0.0872)	(0.0728)	(0.0792)	(0.225)	(0.0985)
Board of directors	0.178	0.206*	0.0826	0.293*	0.191	0.0488
	(0.131)	(0.105)	(0.0662)	(0.151)	(0.119)	(0.0991)
CCP committee	1.426***	1.139***	0.672***			
	(0.178)	(0.175)	(0.127)			
Privatized				1.100***	0.903***	0.221
				(0.320)	(0.197)	(0.172)
Constant	3.307***	-0.539	-0.199	3.325***	-0.931**	-0.366
	(0.465)	(0.332)	(0.268)	(0.395)	(0.405)	(0.441)
Observations	3,739	5,034	5,042	2,026	2,770	2,714
R-squared	0.203	0.245	0.195	0.261	0.268	0.207

Notes: Standard errors are clustered at provincial level and reported in parentheses.

Significance levels 0.1, 0.05 and 0.01 are noted by *, **, and ***, respectively.

The results for the total amount of donation and the likelihood of firms' participation in charity are from OLS and logistic regressions, respectively.

All regressions control for industrial, year, and provincial dummies.

Another theoretical hypothesis is that entrepreneurs in privatized firms have less reciprocal incentive to participate in charitable donation since these firms have better access to bank loan due to their original relationships with the government, thus the value of the initial loan access is small and the reciprocity motive less important. We test this hypothesis in columns 4-6 of table 4 by including the interaction of entrepreneurs' reciprocity incentive with firm origin. The regression results show that the effect of initial bank loan in prompting donation, which is used to measure reciprocal incentive, is statistically smaller in firms that are privatized from former state owned firms. To sum up, the regression results reported in this subsection

suggest that Chinese private entrepreneurs' charitable behaviors are substantially affected by the governance structure, political status, and origin of their firms.

5.3 Local institutions and charity participation

As we discussed in the hypothesis section, Chinese private entrepreneurs' charitable are not only affected by the attributes of their firms, but also shaped by local institutional background. The strategic hypothesis suggests that private entrepreneurs may have more incentive to participate in social charity in to secure bank loan in areas with less developed financial market. And the reciprocity hypothesis posits that a stronger link between loan access and charity giving should be found in regions with weaker financial development because initial loans are more valuable in such an environment. To test these predictions, we utilize a set of financial development indices constructed by Fan and Wang (2007) to measure institutional heterogeneity in China. The first index uses the percentage of total deposit absorbed by non-state-owned financial institutions in a province to measure the degree of competition in the financial sector (denote as Financial index 1). The second index uses the percentage of loan made to non-state sector from financial institutions in a province to measure the efficiency of financial resource allocation (denote as Financial index 2). We conduct the test by re-estimating baseline equation with the introduction of two sets of institutional indices and the interaction terms between the institutional indices and entrepreneur incentive measures.

Table 5 Entrepreneur charity and institutional quality

VARIABLES	(1) log(donation)	(2) *Donation dummy*	(3) *Guangcai* dummy	(4) log(donation)	(5) Donation dummy	(6) *Guangcai* dummy
Entrepreneur's share	0.00494**	0.00556**	0.00735***	0.00716	0.00699	0.0117
	(0.00219)	(0.00226)	(0.00164)	(0.00830)	(0.00823)	(0.00711)
Political connection	1.462***	1.675***	1.038***	2.363**	2.210**	1.814***
	(0.351)	(0.330)	(0.175)	(0.923)	(0.928)	(0.489)
Initial bank loan	0.363***	0.363***	0.462***	0.442***	0.455***	0.367***
	(0.116)	(0.113)	(0.0917)	(0.102)	(0.104)	(0.104)
Entrepreneur's share* Financial index 1	-9.74e-05	5.35e-05	-0.00103*			
	(0.00101)	(0.00105)	(0.000610)			
Political connection* Financial index 1	-0.0295	0.00691	-0.0251			
	(0.150)	(0.145)	(0.0691)			
Initial bank loan* Financial index 1	-0.0752*	-0.0677*	-0.0608*			
	(0.0407)	(0.0360)	(0.0361)			
Entrepreneur's share* Financial index 2				-0.000256	-0.000162	-0.000518
				(0.00111)	(0.00112)	(0.000736)
Political connection* Financial index 2				-0.124	-0.0749	-0.0982*
				(0.115)	(0.118)	(0.0576)
Initial bank loan* Financial index 2				-0.0964**	-0.0966**	-0.0447
				(0.0485)	(0.0461)	(0.0403)
Female	-0.144	-0.182	0.0860	-0.146	-0.193	0.0815
	(0.184)	(0.163)	(0.111)	(0.184)	(0.160)	(0.111)
Education	-0.0125	-0.0214	-0.0275**	-0.0121	-0.0217	-0.0273**
	(0.0257)	(0.0190)	(0.0110)	(0.0255)	(0.0190)	(0.0113)
Former cadre	-0.336**	-0.282***	-0.164**	-0.333**	-0.279**	-0.164**
	(0.143)	(0.107)	(0.0750)	(0.142)	(0.109)	(0.0735)
log(asset)	0.532***	0.345***	0.276***	0.533***	0.345***	0.278***
	(0.0382)	(0.0426)	(0.0278)	(0.0393)	(0.0428)	(0.0284)
Firm age	0.165***	0.171***	0.105***	0.165***	0.172***	0.106***
	(0.0309)	(0.0379)	(0.0206)	(0.0309)	(0.0382)	(0.0207)
ROE	0.200***	0.390***	0.138*	0.199***	0.389***	0.133*
	(0.0712)	(0.0986)	(0.0771)	(0.0699)	(0.0930)	(0.0770)
Board of directors	0.220*	0.221**	0.0972	0.209	0.218**	0.0934
	(0.128)	(0.105)	(0.0622)	(0.127)	(0.103)	(0.0650)
Financial index 1	0.173	0.194	0.329			
	(0.267)	(0.279)	(0.302)			
Financial index 2				-0.118	-0.119	-0.146
				(0.147)	(0.157)	(0.223)
Constant	3.981***	-0.324	0.0340	2.132***	-2.319***	-1.241***
	(1.060)	(0.725)	(0.557)	(0.656)	(0.399)	(0.434)

Observations	3,777	5,080	5,084	3,777	5,080	5,084
R-squared	0.189	0.235	0.209	0.191	0.236	0.209

Notes: Standard errors are clustered at provincial level and reported in parentheses.

Significance levels 0.1, 0.05 and 0.01 are noted by *, **, and ***, respectively.

The results for the total amount of donation and the likelihood of firms' participation in charity are from OLS and logistic regressions, respectively.

All regressions control for industrial, year, and provincial dummies.

In Table 5, we present the regressions with the interactions between these market indices and entrepreneur incentive as co-variates. As shown in the table, the institutional indices do not have direct effects on private entrepreneurs' charitable. But private entrepreneurs' donation motivated strategic and reciprocal incentives declines with the development of local financial market. Overall, the results suggest that Chinese private entrepreneurs' charitable behaviors are not only affected by the attributes of their firms, but also shaped by the local institutions.

6. Conclusion

Since donations are a measurable and visible component of corporate social performance, many studies in the literature have attempted to understand the motivations and factors that drive entrepreneurs' charitable donations. This paper helps enrich the literature by examining the motivation behind Chinese private entrepreneurs' charitable behaviors. By using three waves of a nationwide survey of private firms in 2002, 2004 and 2006 from China, we find robust evidence that Chinese private entrepreneurs' participation in charitable donation and anti-poverty programs is motivated by economic benefit, political return, and reciprocal consideration. Further tests show that Chinese private entrepreneurs' donation motivated by personal motive are constrained by firm governance structure, political status, firm origin, and local institutional quality.

Given the limitation of our data, however, these results should be interpreted with cautions. First, in spite of our efforts to find plausible measure for entrepreneurs' various incentives in charity, our measures may not fully capture the incentives of private entrepreneurs. Second, although we have tried to control for conventional factors, there might be other incentives and factors in Chinese entrepreneurs' charitable donation that are not considered in this paper. Last but not the least, the positive correlation between initial bank loan and private entrepreneurs' donation participation, which we interpreted as reciprocal motive, does not necessarily deny other plausible alternative explanations. Nevertheless, we argue that the positive correlation between initial bank loan and private entrepreneurs' donation might help explain the charity gap between Chinese private entrepreneurs' and entrepreneurs in other developed countries, highlighting the unintended social consequences of restricted financial access.

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Appendix

Table A Definitions of variables

Variable name	Definition
Donation (Yuan)	Total amount of donation made by the private entrepreneur since the firm registered as a private firm
Donation dummy	A dummy variable which equals 1 if a private entrepreneur has ever participated in donation, and 0 otherwise
Guangcai	A dummy variable which equals 1 if a private entrepreneur has ever participated in *Guangcai Program*, and 0 otherwise
Initial bank loan	A dummy variable which equals 1 if an entrepreneur got an initial loan from the bank when the entrepreneur started the firm, and 0 otherwise
Privatized	A dummy variable which equals 1 if an firm is privatized from former state-owned enterprises or collective enterprises, and 0 otherwise
Current loan (ten-thousand Yuan)	Total amount of loans currently borrowed from banks by the private entrepreneur
Entrepreneur's share (%)	The equity share held by the entrepreneur
Political connection	A dummy variable which equals 1 if an entrepreneur holds memberships in the People's Congress (PC) or the Chinese People's Political Consultative Conference (CPPCC) at various levels, and 0 otherwise
CCP committee	A dummy variable which equals 1 if a private firms has established a CCP committee in the firm, and 0 otherwise
Asset (ten-thousand Yuan)	Total amount of firm asset
Firm age	The age of the firm since it registered as a private firm
ROE	Return on equity
Female	A dummy variable which equals 1 if an entrepreneur is female, and 0 otherwise
Education	the private entrepreneur 's years of schooling
Cadre	A dummy variable which equals 1 if an entrepreneur formerly served as a government cadre, and 0 otherwise
Family wealth (ten-thousand Yuan)	The total amount of wealth held by the private entrepreneur 's family
Board of directors	A dummy variable which equals 1 if a firm has set up the board of directors, and 0 otherwise
Financial index 1(%)	The percentage of total deposit absorbed by non-state-owned financial institutions in a province
Financial index 2 (%)	The percentage of loans made to non-state sector from financial institutions in a province