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Institutional Ownership and Corporate Philanthropic Giving in an Emerging Economy

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ABSTRACT In this study, we examine the effect of institutional ownership on corporate philanthropy in China, an emerging economy. Employing stakeholder identification and salience theory, we posit that institutional ownership positively influences corporate philanthropy, which varies for different types of institutional investors. We further argue that institutional ownership's influence is stronger when philanthropy is aligned with firm goals. Using data from Chinese publicly listed firms, we find a positive effect of institutional ownership on philanthropy, and this effect is stronger for domestic institutional owners when compared to foreign institutional owners, and long-term when compared to short-term institutional owners. We also find that the positive influence of institutional ownership is stronger in private firms and in regions with low institutional development – situations characterizing high alignment between philanthropy and firm goals. Our findings highlight the important role of institutional investors on corporate philanthropy decisions, which have implications for scholars studying and policy makers enacting corporate governance in emerging economies.

KEYWORDS China, corporate philanthropy, emerging economies, institutional investor, stakeholder salience

INTRODUCTION

In recent years, corporate philanthropy, which includes monetary contributions as well as in-kind gifts given to a wide range of social and charitable causes, has become a more prominent component of a firm's activity (Godfrey, 2005; Tilcsik & Marquis, 2013; Wang & Qian, 2011). Prior research has linked corporate philanthropy to important strategic outcomes, including corporate reputation (Williams & Barrett, 2000), customer satisfaction and loyalty (Luo, 2005), and financial performance (Lev, Petrovits, & Radhakrishnan, 2010; Wang, Choi, & Li, 2008a; Wang & Qian, 2011). Given its importance, powerful organizational decision makers, such as shareholders (Adams & Hardwick, 1998; Brammer & Millington, 2004; Du, Jian,

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Du, Feng, & Zeng, 2014; Zhang, Rezaee, & Zhu, 2009) and executives (Marquis & Lee, 2013), have taken a larger role in shaping corporate philanthropy.

Prior studies have highlighted shareholders' influence on corporate philanthropy, yet almost exclusively on the relationship between block shareholder ownership and corporate philanthropy (e.g., Adams & Hardwick, 1998; Atkinson & Galaskiewicz, 1988; Brammer & Millington, 2004; Brown, Helland, & Smith, 2006). Although this line of inquiry has yielded great insight, opportunities to examine the role of other types of shareholders, especially that of institutional investors, remain. Institutional investors own an increasing percentage of firm shares and are particularly active in shaping strategic decisions (Connelly, Tihanyi, Certo, & Hitt, 2010; David, Hitt, & Gimeno, 2001; Greenwood & Schor, 2009; Kochhar & David, 1996). However, the motives to and the efficacy of their influence on corporate philanthropy remain unexplored. Theory building and testing of institutional investors' influence thus promises to contribute to a more complete picture of ownership structure and corporate philanthropy.

This article examines the institutional ownership-corporate philanthropy relationship in an emerging economy (i.e., China). An emerging economy offers an excellent setting to test this relationship. First, corporate philanthropy is a prevalent corporate social responsibility (CSR) activity in emerging economies. For example, corporate philanthropic giving in China has grown dramatically in the last few years from about 20 billion RMB in 2007 to 68 billion RMB in 2010 (Meng, Peng, & Liu, 2012). However, research on corporate philanthropy is primarily conducted in developed countries (e.g., Amato & Amato, 2007; Marquis & Lee, 2013; Tilcsik & Marquis, 2013). Conducting research in emerging economies helps to paint a more complete picture of the use of corporate philanthropy around the globe.

Second, weak institutions and highly concentrated corporate ownership structure render institutional investors an especially important role in promoting CSR activities, such as philanthropy. Emerging economies are generally plagued by weak institutions (Peng, Wang, & Jiang, 2008; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008), which makes the cost of socially irresponsible behavior much lower than in developed economies. Further, CSR activity benefits all shareholders equally, but socially irresponsible behaviors such as related-party transactions and intercorporate loans mainly benefit controlling shareholders (Cheung, Rau, & Stouraitis, 2006; Jian & Wong, 2010; Jiang, Lee, & Yue, 2010). In turn, controlling shareholders are more likely to favor corporate decisions including socially irresponsible behavior that yield higher marginal revenue as compared to CSR activities. Their ability to influence is stronger when ownership concentration is high (Young et al., 2008). Thus, institutional investors have a strong incentive to monitor controlling shareholders in emerging economies, especially by promoting CSR, to preserve the value of their investment.

By unpacking the influence of institutional ownership on corporate philanthropy, we make several contributions to the literature. First, we demonstrate the influence of institutional investors on corporate philanthropy decisions in emerging

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economies. This finding not only contributes to our understanding of the factors that increase the adoption of corporate philanthropy, but also refutes the commonly accepted belief that institutional investors play a very limited role in corporate governance in emerging economies such as China (e.g., Tenev, Zhang, & Brefort, 2002). In addition, our findings enrich our understanding of institutional investor activism in shaping CSR around the globe, since prior studies mainly focus on institutional investors' influence on CSR in the United States or United Kingdom (e.g., Coffey & Fryxell, 1991; Dam & Scholtens, 2012; Neubaum & Zahra, 2006). Second, our focus on different types of institutional investors is significantly different from most prior studies, which have largely treated institutional investors in a firm as a united party and aggregated all their shares in the firm (e.g., Choi, Lee, & Park, 2013; David et al., 2001; Graves & Waddock, 1994). Third, while research employing theories of stakeholder identification and salience suggests that stakeholder salience is determined by stakeholder attributes (Mitchell, Agle, & Wood, 1997), we show that the attributes of issues proposed by stakeholders also matter, which contributes to a more nuanced theory of stakeholder salience. Last, we help to reconcile the equivocal results regarding the effects of institutional ownership on CSR by specifying how different types of institutional investors have varying effects on CSR and how issue attributes moderate these effects.

THEORETICAL BACKGROUND AND HYPOTHESES

The growth of institutional shareholdings has increased the visibility of institutional investors in emerging economies, while reducing their flexibility to exit holdings (Cox, Brammer, & Millington, 2004). Because of this conundrum, there is a strong incentive for them to be activist shareholders (Johnson & Greening, 1999), especially since they can overcome obstacles to corporate governance encountered by other shareholders. Due to a free rider problem, only large shareholders can justify the costs of monitoring (Gillan & Starks, 2000; Shleifer & Vishny, 1986). Among large shareholders, institutional investors are especially likely to be vigilant, since they have relevant expertise, experiences, and asymmetric information advantages (Oh, Chang, & Martynov, 2011). Further, although individual institutional investors may not have a large enough shareholding to influence corporate decisions, they can gain power from coordinated actions through joint holdings. For example, shareholder organizations, such as the Asset Management Association of China, have established a shared identity, promoting collective action. These organizations provide institutional investors with access to information not available to the public, which enhances their influence.

Recent revelations of corporate irresponsible behaviors in emerging economies, including Sanlu in China (2008) and Petrobras in Brazil (2014), have led institutional investors to demand more attention to CSR. For example, Sanlu, China's leading dairy products company, was involved in an adulterated milk powder scandal affecting some 294,000 infants and killing 6 in 2008. In its resulting bankruptcy,

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institutional investors suffered significant investment losses. Such events highlight why institutional investors must stay vigilant and promote CSR activities in emerging economies.

Institutional investors have a strong incentive to promote corporate philanthropy for three reasons. First, corporate philanthropy helps the firm build closer relationships with the government and other stakeholders, which improves long-term viability (He & Tian, 2008; Wang & Qian, 2011; Zhao, 2012). Government in emerging economies not only controls key resources, but also extensively intervenes in corporate activities (Bai, Lu, & Tao, 2006; Su & He, 2010). As a result, firms with strong government relationships can gain access to critical resources (e.g., bank loans, land, etc.), receive tax benefits, and enjoy better project approval and property rights protection (Bai et al., 2006; Su & He, 2010). In contrast, a poor firm-government relation may create disadvantages; for example, Google's relationship with the Chinese government soured in 2010, because unlike its competitors, it did not comply with censorship laws. This breakdown in its relationship with the government caused Google to withdraw from the market that same year.

The firm-government relationship is so critical that firms are eager to cultivate a better relationship through legal as well as illegal means (He & Tian, 2008). Yet traditional tactics (e.g., bribery) carry increasing risks for firms and politicians alike, as the institutional environment has recently improved in emerging economies such as China (Fan, Wang, & Zhu, 2011). This has forced firms to employ legal means, such as philanthropy, to maintain strong government relations (He & Tian, 2008; Zhao, 2012). Research has examined how this change has created a virtuous cycle. Philanthropy provides solutions to various social problems, and thus complements government programs.[1] To tackle social problems, the government typically plays a large role in promoting, receiving, and distributing philanthropic giving in emerging economies, which provides firms access to, create goodwill, and build a closer relationship with the government. Consequently, firms increasingly use philanthropy to build and maintain firm-government relations in China (He & Tian, 2008; Zhao, 2012). In addition, corporate philanthropy helps firms build close relationships with other stakeholders such as customers, suppliers, investors, employees, communities, and various interest groups (Luo, 2005; Porter & Kramer, 2002). As with the government, enhancing relationships with these important stakeholders through corporate philanthropy improves a firm's long-term prospects (Porter & Kramer, 2002).

Second, corporate philanthropy helps firms reduce their risk and, as a result, lowers institutional investors' investment risk (Godfrey, 2005). Corporate philanthropy reduces firm risks related to resource dependence, since closer ties with government and other stakeholders provide access to critical resources controlled by these stakeholders. In addition, emerging economies have notoriously weak property rights regimes (He & Tian, 2008; Peng et al., 2008; Young et al., 2008; Zhao, 2012), which can raise a firm's operating risks that result from government intervention and commercial disputes. Hence, a closer relationship

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with the government enables the firm to enjoy more legal and nonlegal (i.e., informal) protections (Bai et al., 2006; Su & He, 2010), mitigating a firm's operating risks.

Third, institutional investors may support corporate philanthropy to signal the strength of their investment, while reducing information asymmetry with clients (Oh et al., 2011). To attract clients, institutional investors need to convince them of the prudence of their investment decisions. Promoting CSR is one way for firms to signal that they are reliable and responsible, which helps to differentiate their services (Oh et al., 2011). This is especially true for corporate philanthropy, because it is one of the most visible and measurable CSR activities.

Institutional Ownership and Corporate Philanthropy

The theory of stakeholder identification and salience suggests that stakeholders' influence on corporate strategy is largely determined by their salience or 'the degree to which managers give priority to competing stakeholder claims' (Mitchell et al., 1997: 854). Managers pay greater attention and are most responsive to stakeholders with high salience. Further, this theory argues that stakeholder salience is determined by three stakeholder attributes: its power to influence the firm, the legitimacy of its relationship with the firm, and the urgency of the stakeholder's claim on the firm (Mitchell et al., 1997). According to this logic, the attributes of institutional investors determine their salience in shaping corporate philanthropy. To unpack the institutional investor-corporate philanthropy relationship, we focus on three key attributes – institutional ownership, domestic vs. foreign institutional ownership, and long-term vs. short-term institutional ownership – and explain how these attributes affect institutional investors' influence on corporate philanthropy.

Institutional ownership. We have argued that institutional investors have a strong incentive to promote corporate philanthropy. In addition, institutional investors have the capacity to employ various mechanisms to promote corporate philanthropy. Corporate philanthropic allocations typically consist of two parts: (1) annual budget that is negotiated and approved by all shareholders at the annual shareholder meeting and (2) any additional philanthropic giving that is negotiated and approved at an interim shareholder meeting when the annual budget is not sufficient. Extra philanthropic giving usually occurs when a firm responds to a major incident, such as a natural disaster. Corporate philanthropy, much like the transfer of other assets, is subject to shareholder approval. As important shareholders, institutional investors can influence the amount of philanthropic giving at three different stages during the decision process: prior to the shareholder meeting via negotiating, at the shareholder meeting with their votes, and after the shareholder meeting by exiting their position in the firm.

First, prior to the shareholder meeting, managers and directors file a proposal about the amount of philanthropic giving, which is discussed and voted on at the

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meeting. To ensure the proposal's approval, these leaders generally negotiate with important shareholders, especially institutional investors, to prevent any public embarrassment or cost to their reputations resulting from any formal disputes or rejections of the proposal at the meeting (David, Bloom, & Hillman, 2007; Goranova & Ryan, 2013). Thus, institutional investors with large blocks of shares exert greater influence on the proposed philanthropic giving since they hold more voting rights. Furthermore, these institutional investors have the right to nominate and even assign directors; thus, they can exert direct influence over corporate decisions regarding philanthropy.

Additionally, institutional investors can also initiate negotiations to influence via behind-the-scenes discussions, letters, phone calls, meetings, and ongoing dialogues (Goranova & Ryan, 2013; Neubaum & Zahra, 2006). According to the CSMAR CSR Database of Chinese publicly listed firms, there were on average 87 institutional investor-firm communications in 2011. Because of the fear of negative publicity resulting from formal negotiation, these informal tactics are generally more effective (David et al., 2007; Goranova & Ryan, 2013; Guercio & Hawkins, 1999). Not surprisingly, less public forms of institutional activism have become increasingly common (Gillan & Starks, 2000; Guercio & Hawkins, 1999). Regardless of tactics, the size of their investment position largely determines investors' influence.

Second, even if institutional investors cannot influence the proposal prior to the shareholder meeting, they can use formal tactics to influence it during the shareholder meeting (Gillan & Starks, 2000). Specifically, they can cast opposing votes against unfavorable provisions related to philanthropy. If the original proposal does not pass, managers and directors have to adjust it to make it more consistent with the interests of institutional investors. Since ownership is concentrated in emerging economies, governments often enact formal institutions to make the claims of noncontrolling shareholders such as institutional investors incorporated in firm decisions including cumulative voting, proxy voting rights, and network voting. For example, according to the *Code of Corporate Governance for Listed Companies in China*,[2] firms with controlling shareholders that own more than 30% of firm shares must adopt a cumulative voting system.

Last, institutional investors can also use the exit option to influence corporate philanthropy, but generally use this option only as a last resort. With large block holdings, any major sale puts pressure on a firm's stock price, forcing managers to take institutional investors' claims regarding philanthropy more seriously. For example, Vanke, one of the largest real estate companies in China, announced it would donate 2.2 million RMB in the aftermath of the Wenchuan Earthquake on May 12, 2008. However, compared with its sales and profit (41 billion and 4 billion RMB in 2008), this meager amount generated harsh public criticism. To exert leverage, institutional investors sold a large block of their holdings resulting in more than a 10% drop in Vanke's stock price one trading day after the announcement. In response, Vanke increased its pledge to 100 million RMB a week after its

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initial announcement. This illustrates why managers are likely to make corporate philanthropy congruent with the interests of institutional investors that own a large percentage of shares.

In sum, institutional investors not only have a strong incentive to promote corporate philanthropy but also can employ formal and informal tactics to influence this decision. Thus, we hypothesize:

Hypothesis 1: Corporations with higher institutional ownership will have higher corporate philanthropic giving.

Domestic and foreign institutional ownership. Although we predict an overall positive relationship between institutional ownership and corporate philanthropy, we acknowledge the heterogeneity of institutional investors, and thus the varying effects they have on corporate philanthropy. In particular, we distinguish between domestic and foreign institutional investors who both operate in emerging economies. Although foreign institutional investors may pay greater attention to corporate philanthropy because of their familiarity with this issue and the greater emphasis on CSR in their home countries (Oh et al., 2011), we argue that domestic institutional investors have stronger incentive and capability to promote philanthropy than do foreign institutional investors.

Domestic institutional investors are more concerned with risk, giving them a stronger incentive to promote corporate philanthropy as a means to lower investment risk. Institutional investors typically employ two broad mechanisms to limit investment risk: diversify their portfolio and monitor firm operations (Gillan & Starks, 2000). Creating a diverse investment portfolio is more frequently used, since it is associated with lower costs. However, in emerging economies, such as China, there are strict restraints on investment options for domestic institutional investors (Kim, Ho, & Giles, 2003), which prevents them from acquiring diverse portfolios. For example, China has strict regulations on cross-border capital flow,[3] making the cost of investing overseas especially high. By contrast, foreign institutional investors face no such constraints; they have more options to limit investment risk. Therefore, domestic institutional investors depend more on monitoring firm operations to lower risks. Since corporate philanthropy partly serves as a risk reduction tool in emerging economies, we expect that domestic institutional investors have a stronger incentive to improve corporate philanthropy.

Additionally, domestic institutional investors in emerging economies face legitimacy concerns, which makes them more willing to promote philanthropy. Consumers tend to trust western multinational corporations (MNCs) more because of their greater size, experience, and prestige. For example, according to a 2013 survey conducted by Edelman, a leading American public relations firm, 76% of respondents trusted MNCs from developed economies, while only 43% trusted those from emerging economies.[4] Given this greater scrutiny, domestic institutional investors must demonstrate their trustworthiness in order to attract clients. Being

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active in promoting corporate philanthropy signals that they are responsible and reliable investors.

In addition to having more incentive, domestic institutional investors have stronger capability to shape corporate philanthropy. According to the 'home bias' argument of Brennan and Cao (1997) and Kang and Stulz (1997), foreign investors experience difficulties in actively monitoring a firm's operations due to the barriers of distance, language, and culture. These barriers limit foreign institutional investors' ability to gain relevant information, negotiate, and exert influence over corporate decisions. For example, Choe, Kho, and Stulz (2005) found that foreign investors do not have an information advantage over domestic investors. Additionally, networks and personal relationships are prevalent in emerging economies and play a central role in transferring information and facilitating cooperation (Peng et al., 2008; Xin & Pearce, 1996). However, language and cultural barriers make it more difficult for foreign investors to build relationships with managers and to enter these important networks, which limits their ability to use informal tactics to influence corporate philanthropy. Therefore, we propose the following hypothesis:

Hypothesis 2: Domestic institutional ownership will have a stronger positive effect on corporate philanthropic giving than will foreign institutional ownership.

Long-term and short-term institutional ownership. As in developed economies (e.g., Bushee, 1998; Choi et al., 2013; Cox et al., 2004; Neubaum & Zahra, 2006), there are two types of institutional investors in emerging economies: long-term and short-term investors. They differ on three salient characteristics – cash flow, evaluation criteria, and monitoring capability (Brennan & Cao, 1997; Choi et al., 2013; Kang & Stulz, 1997; Oh et al., 2011) – and thus have different effects on corporate philanthropy.

First, in terms of cash flows, inflows and outflows of long-term institutional investors (e.g., pension funds) are largely predictable, because their clients do not have redemption rights (Cox et al., 2004). In contrast, both cash inflows and outflows have greater variation for short-term institutional investors; cash inflows largely depend on such factors as past performance and marketing strategy. Additionally, cash outflows are unpredictable, because their clients typically have redemption rights (Cox et al., 2004). To satisfy this requirement, short-term institutional investors trade more frequently and hold a stock for shorter terms. Corporate philanthropy investments have a longer investment time horizon (Falck & Heblich, 2007), which aligns better with long-term institutional investors' buy-hold strategy; thus, those inventors have a stronger incentive to promote corporate philanthropy.

In addition to differing on cash flow characteristics, each type of institutional investor is subject to different evaluation criteria. Short-term institutional investors are typically evaluated quarterly, giving them a short-term profit-maximization orientation (Johnson & Greening, 1999; Neubaum & Zahra, 2006; Oh et al., 2011). By contrast, managers of long-term institutional investors (e.g., pension funds) are

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usually salaried employees and their compensation is not closely tied to performance of their portfolios (Choi et al., 2013; Johnson & Greening, 1999; Neubaum & Zahra, 2006). This makes long-term institutional investors more willing to wait for the benefits resulting from corporate philanthropy investments. This logic is supported empirically for such long-term investment activities as firm innovation (e.g., Bushee, 1998) and corporate social performance (e.g., Johnson & Greening, 1999; Neubaum & Zahra, 2006; Oh et al., 2011).

Second, because long-term institutional investors hold shares for longer periods of time (Hoskisson, Hitt, Johnson, & Grossman, 2002; Neubaum & Zahra, 2006), they are able to develop stronger monitoring capabilities. As compared with short-term institutional investors, long-term institutional investors have more opportunities to meet with managers and directors and, thus, can build closer relationships, which enhances their ability to use informal tactics to influence corporate philanthropy. Therefore, we predict:

Hypothesis 3: Long-term institutional ownership will have a stronger positive effect on corporate philanthropic giving than will short-term institutional ownership.

The Moderating Effects of Alignment between Philanthropy and Firm Goals

Although the theory of stakeholder identification and salience is insightful, it has come under recent criticism for largely ignoring the characteristics of the issues proposed by stakeholders (Muller, Pfarrer, & Little, 2014). Firms and managers do not respond to stakeholders per se, but rather respond to specific issues and concerns regarding firm operations that are advocated by stakeholders (Bundy, Shropshire, & Buchholtz, 2013). Managers perceive stakeholder issues through a firm's strategic frame or its 'understanding of cause-effect relationships in the competitive environment based within an instrumental logic' (Bundy et al., 2013: 360). Issues perceived as related to firm goals are instrumentally salient to managers, while those interpreted as unrelated are not. Accordingly, issues interpreted as aligned with goals are more likely to garner substantive responses, while those perceived to conflict with firm goals are associated with negotiation or defensive responses (Bundy et al., 2013).

Consistent with this logic, how managers respond to institutional investors' claims regarding philanthropy is influenced by the degree of alignment between philanthropy and firm goals (Bundy et al., 2013). Since corporate philanthropy is critical to the firm-government relationship in emerging economies, we expect that firms lacking close government ties and operating in regions with low regional institutional development have high corporate philanthropy-goal alignment. Because of this alignment, institutional investors are likely to have a stronger positive effect on corporate philanthropy.

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Ownership type. Although government ownership of firms is a global phenomenon, it is more common in emerging economies (Wang, Wong, & Xia, 2008b; Xu & Wang, 1999). For example, in China, more than 60% of publicly listed firms were state owned during 1999–2008 (Marquis & Qian, 2013). We expect institutional ownership to have a stronger positive effect in private firms than in state-owned firms, because corporate philanthropy is more consistent with the goals of private firms.

In countries with strong government participation in the economy, the efficacy of firms' relationship with the government is critical to resource acquisition (Hellman, Jones, & Kaufmann, 2003; Wang et al., 2008b). Inherently, state-owned firms have close ties with government, enjoying preferential treatment for input factors (e.g., capital) as well as protection in product markets (Wang et al., 2008b). In contrast, private firms rarely enjoy such benefits; they face more difficulty in acquiring resources, which gives them a strong incentive to build a positive government relationship to overcome these disadvantages. Since philanthropy improves firm-government relationships, institutional investors' claims regarding philanthropy are more likely to be supported in private firms.

Additionally, institutional investors have a stronger capability to promote philanthropy in private firms than in state-owned firms. Senior managers are typically appointed by the government in state-owned firms (Li & Zhang, 2007) and are rarely challenged by institutional investors. In addition, private owners consider stock price more important than state owners do. For example, the most important valuation criterion of managers in Chinese state-owned firms is the preservation and increment of the [book] value of the state-owned assets, which is unrelated to a firm's stock price.[5] Thus, institutional investors' influencing strategies, especially the voting with their feet option, are a less serious threat for managers in state-owned firms than in private firms. With this limited leverage, we predict the following relationship:

Hypothesis 4: The effect of institutional ownership on corporate philanthropic giving will be stronger in private firms than in state-owned firms.

Regional institutional development. We argue that institutional investors' influence on corporate philanthropy is stronger in regions with low institutional development, since it is more consistent with firm goals in these regions. 'A hallmark of emerging economies is that they tend to have more fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect firms as players' (Peng et al., 2008: 924). Comprehensive change in formal and informal institutions generally occurs unevenly (Peng, 2003); regional institutional environments differ largely in these countries (Fan et al., 2011; World Bank, 2006). For example, regional institutional development is higher for the coastal regions in China, such as Shanghai, Zhejiang, Shandong, and Guangdong, than in the interior regions (Fan et al., 2011; World Bank, 2006). In regions with low institutional

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development, governments control a higher percentage of resources and have a higher propensity to intervene in firm operations (Fan et al., 2011; Li, Meng, & Zhang, 2006). To acquire resources and avoid this type of intervention, firms leverage philanthropy to improve government relations, especially in regions with low institutional development. Therefore, institutional investors' claim regarding philanthropy is more likely to be supported in these regions.

In addition, promoting corporate philanthropy in regions with low institutional development lowers investment risk for institutional investors. Firm property and contractual rights, in general, are poorly protected in regions with low institutional development (Li et al., 2006; Li, Vertinsky, & Zhang, 2013), which augments business risk. Faced with this higher investment risk, institutional investors are more willing to promote strategies that reduce firm risk in these regions. Since corporate philanthropy reduces firm risk through building a closer firm-government relation (He & Tian, 2008; Wang & Qian, 2011; Zhao, 2012), institutional investors have a stronger incentive to encourage the firm to engage in philanthropy; thus, we predict:

Hypothesis 5: The effect of institutional ownership on corporate philanthropic giving will be stronger in regions with low institutional development.

METHOD

Empirical Setting

We examine the antecedents of corporate philanthropy in China, one of the largest emerging economies. China provides an ideal research laboratory to explore the boundary conditions of institutional shareholder activism in corporate philanthropy because of its unique form of state capitalism (Zhang et al., 2009) and varying level of institutional development across its regions (Fan et al., 2011; World Bank, 2006). In addition, employing China as a research setting is also driven by practical considerations. Although China has made a great deal of regulatory effort to develop institutional investors during the past two decades, relatively few studies investigate institutional investors' influence on firm-level outcomes. This makes it difficult to evaluate its regulatory efforts. This study tries to provide empirical evidence that has policy implications for China and other emerging countries.

The Development of Institutional Investors in China

In order to satisfy firms' increasing demand for capital and advance the reform of state-owned firms, the Shanghai and Shenzhen Stock Exchanges were founded in 1990. Since then, they have witnessed phenomenal growth. There were only 14 publicly listed firms on these exchanges at the end of 1991 (CSRC, 2008); however,

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by the end of 2011, this increased to 2342, with a market capitalization 3.4 trillion US dollars (about 45% of China's GDP) for all publicly listed firms (NBS, 2012).

Although the Chinese stock market was initially dominated by individual investors, drawing on international experience, the China Securities Regulatory Commission (The CSRC is the Chinese equivalent of the SEC in the United States) launched reforms to promote the development of China's fund management industry in 1998 (CSRC, 2008). The first open-end fund was created in 2001, and the Qualified Foreign Institutional Investor (QFII) soon followed in December 2002. Since then, institutional investors have entered a golden age; the number of funds increased from 71 at the end of 2002 to 914 at the end of 2011. In addition, the total net value of these funds increased from $15.93 billion in 2002 to $410.45 billion in 2011, accounting for 3.44% and 12.34% of total market capitalization of publicly listed firms, respectively (NBS, 2003, 2012). Given this increased clout, institutional investors now play a critical role in shaping corporate governance and strategy.

Data and Sample

Our sample consisted of A-share companies listed on the Shanghai and Shenzhen Stock Exchanges during the years 2003–2008. We used 2003 as the starting year of data collection because the QFII was launched at the end of 2002; prior to 2003, there were no foreign institutional investors. Institutional ownership data was collected from the *Wind Information Database*. We collected other data from the *China Stock Market & Accounting Research Database (CSMAR)*, which covers various financial data of Chinese listed companies since 1990.

Our initial sample included all publicly listed firms in the Shanghai and Shenzhen Stock Exchanges (8215 firm-years). For each year, we dropped the following firms: (1) firms in the finance and insurance industry, since the annual reports of these firms are not comparable with those in other industries (44 firm-years); (2) firms with missing values of the included variables (510 firm-years).[6] These procedures yielded 7661 observations in our final sample, consisting of 2841 private firms (37.08%), 4624 state-owned firms (60.36%), and 196 firms classified as 'unknown' because we lacked information to identify their ownership type (2.56%, these observations were included for test H1–3 and H5, but were excluded for test H4.). We conducted T-tests to determine any differences between the sample and all listed firms. Results revealed no systematic differences in corporate philanthropic giving ($t = 0.727$, $p = 0.467$), institutional ownership ($t = 0.039$, $p = 0.969$), total assets ($t = 1.456$, $p = 0.146$), and firm age ($t = 1.016$, $p = 0.310$), indicating our sample largely represents all listed firms.

Table 1 presents the year, industry, and region distribution of sample firms. Since China is the world's factory, about 60% of our observations are from the manufacturing industry. Sample firms are located in 31 provinces of mainland China. A higher proportion of firms are located in provinces with high economic development such as Guangdong, Shanghai, Zhejiang, Jiangsu, and Beijing. Table 2

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Table 1. Sample description

Panel A: Year representation

Year	Observations	Percentage
2003	1,131	14.76%
2004	1,268	16.55%
2005	1,217	15.89%
2006	1,275	16.64%
2007	1,359	17.74%
2008	1,411	18.42%
Total	*7,661*	*100.00%*

Panel B: Industry representation

Industry	Observations	Percentage
Agriculture, forestry, livestock farming, fishery	182	2.38%
Mining	130	1.70%
Manufacturing	4,498	58.71%
Utilities	333	4.35%
Construction	163	2.13%
Transportation	304	3.97%
Information technology	476	6.21%
Wholesale and retail trade	499	6.51%
Real estate	307	4.01%
Social services	233	3.04%
Communication and cultural	57	0.74%
Comprehensive	479	6.25%
Total	*7661*	*100.00%*

Panel C: Region representation

Province	Observations	Percentage	Province	Observations	Percentage
Anhui	261	3.41%	Liaoning	267	3.49%
Beijing	479	6.25%	Neimenggu	108	1.41%
Fujian	254	3.32%	Ningxia	64	0.84%
Gansu	104	1.36%	Qinghai	52	0.68%
Guangdong	882	11.51%	Shandong	430	5.61%
Guangxi	128	1.67%	Shanxi	125	1.63%
Guizhou	77	1.01%	Shaanxi	134	1.75%
Hainan	113	1.48%	Shanghai	772	10.08%
Hebei	181	2.36%	Sichuan	342	4.46%
Henan	187	2.44%	Tianjin	129	1.68%
Heilongjiang	147	1.92%	Xizang	42	0.55%
Hubei	320	4.18%	Xinjiang	158	2.06%
Hunan	221	2.88%	Yunnan	124	1.62%
Jilin	178	2.32%	Zhejiang	562	7.34%
Jiangsu	526	6.87%	Chongqing	154	2.01%
Jiangxi	140	1.83%	*Total*	*7661*	*100.00%*

presents the summary statistics of corporate philanthropic giving by year. Overall, firms increased spending on philanthropy during this period. Because firms actively donated to Wenchuan earthquake relief in 2008, the amount of philanthropic giving is much higher in 2008.[7] The average philanthropic giving is 864.56 thousand

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Table 2. Summary statistics of corporate philanthropic giving by year

Year	*Mean*	*Std. Dev.*	*Min*	*Max*	*Median*
2003	360960.5	4042752.0	0	130000000.0	0.0
2004	445812.9	7914876.0	0	280000000.0	0.0
2005	251182.7	1451689.0	0	45000000.0	3000.0
2006	538065.9	4033803.0	0	95000000.0	12299.5
2007	1185175.0	12600000.0	0	410000000.0	33600.0
2008	2159825.0	10800000.0	0	270000000.0	417758.0
Total	864564.3	8138236.0	0	410000000.0	23200.0

RMB (about 126 thousand U.S. dollars according to the official exchange rate at the end of 2008), a relatively small expenditure.

Dependent Variable

Corporate philanthropic giving was measured as the total amount of giving during a specific year. Since the variable was highly skewed (see Table 2), following previous studies (Atkinson & Galaskiewicz, 1988; Marquis & Lee, 2013; Tilcsik & Marquis, 2013; Wang & Qian, 2011), we log transformed this variable (+1) to correct for skewed values. To control for the potential problem of reverse causality, we used the corporate philanthropic giving in year *t* and independent and control variables at the beginning of year *t* in regression analyses.

Independent Variables

Institutional ownership. Institutional investors include securities investment funds, securities companies, insurance companies, the National Social Security Fund, enterprise annuity funds, and the QFII. We measured institutional ownership as the percentage of each company's outstanding shares owned by these institutional investors at the beginning of a year (Neubaum & Zahra, 2006).

Domestic and foreign institutional ownership. Among institutional investors, only QFII includes foreign institutional investors. Thus, foreign institutional ownership was measured as the percentage of each company's outstanding shares owned by QFII. Domestic institutional ownership was measured as the percentage of firm shares owned by all institutional investors less the QFII-owned percentage.

Long-term and short-term institutional ownership. In China, domestic institutional investors include securities investment funds, securities companies, insurance companies, the National Social Security Fund, and enterprise annuity funds. We grouped institutional investors based on the characteristics of cash flows and evaluation criteria. By law,[8] the cash inflows of the National Social Security Fund and enterprise annuity funds are fixed ratios of employees' salaries. In addition, the clients of the National Social Security Fund and enterprise annuity funds

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do not have redemption rights, while other institutional investors' clients have such rights. Therefore, the cash inflows and outflows are more predictable for the National Social Security Fund and enterprise annuity funds. To satisfy cash flow requirements, securities investment funds, securities, and insurance firms trade more frequently and hold a stock for shorter terms than do the National Social Security Fund and enterprise annuity funds.

Furthermore, managers of the National Social Security Fund and enterprise annuity funds are usually salaried employees whose compensation is not closely tied to the performance of their portfolios, while their counterparts at other companies are typically evaluated quarterly. Thus, the National Social Security Fund and enterprise annuity funds' investment time horizons are longer than other domestic institutional investors. Accordingly, we designated the National Social Security Fund and enterprise annuity funds as long-term institutional investors and all other domestic institutional investors as short-term institutional investors. We calculated the percentage of firm shares owned by the two groups, respectively, to measure these constructs.

Ownership type. Since pyramid structures and cross-holdings are prevalent in Chinese firms, we measured ownership type based on the type of a firm's ultimate controller (Du et al., 2014; Wang et al., 2008b; Zhang et al., 2009). We classified firms into three types: (1) private firms, (2) state-owned firms, and (3) 'unknown' firms. *Private firm* takes the value 1 if a firm's ultimate controller is a private company or an individual, and 0 otherwise. *State-owned firm* equals 1 if a firm's ultimate controller is the central government, local government, or government agency, and 0 otherwise. The unknown category indicated firms where we lacked information to identify the ultimate controller or the type of the ultimate controller properly (*Private firm* and *State-owned firm* both equal 0).

Regional institutional development. Regional institutional development was assessed using the institutional index developed by the National Economic Research Institute (NERI) (Fan et al., 2011), which is a widely used measure (e.g., Li & Qian, 2013; Wang et al., 2008b). This index consists of five dimensions: (1) the relationship between the government and the market, (2) the development of the nonstate sector, (3) the development of factor markets, (4) the development of product markets, and (5) the development of market intermediaries and legal environment. The NERI assigned scores for all 31 provinces, municipalities, and autonomous regions that captured the progress of institutional development in each year during the 1997–2009 period (Fan et al., 2011). A higher score indicates better regional institutional development.

Control Variables

At the firm level, we controlled for board size, CEO tenure, CEO age, ownership of largest shareholder, financial performance, cash available, leverage, firm size,

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and firm age. To control the potential influences of corporate upper echelons, we controlled for *board size*, *CEO tenure*, and *CEO age* (Brown et al., 2006; Marquis & Lee, 2013). The larger the *board size*, the greater philanthropic giving since philanthropy is less constrained by individual interests (Brown et al., 2006; Marquis & Lee, 2013). *CEO tenure* is expected to have a negative effect, because long-tenured CEOs are less attuned to changes in the external environment and, thus, are less likely to respond to externally oriented activities such as philanthropy (Marquis & Lee, 2013). Younger CEOs are more likely to make decisions that benefit the company in the long run (Barker III & Mueller, 2002; Wu, Levitas, & Priem, 2005), since they are a major beneficiary from such decisions. Thus, we expect that *CEO age* has a negative effect on corporate philanthropy.

Prior studies suggest that a firm's largest shareholder constrains discretionary managerial expenditures such as corporate philanthropy (Brammer & Millington, 2004; Brown et al., 2006). Thus, we controlled for the percentage of shares owned by the largest shareholder (*ownership of largest shareholder*). Firms that are more profitable tend to have higher philanthropic giving (Zhang et al., 2009). Therefore, firm financial performance was included, operationalized as return on assets (*ROA*). In addition, corporate philanthropy is largely constrained by *cash available* (Jia & Zhang, 2013; Zhang et al., 2009), which we operationalized as the natural log of a firm's cash and cash equivalents. Since firms with more debt face restrictions on their cash allocations (Zhang, Zhu, Yue, & Zhu, 2010), we controlled for firm *leverage*, operationalized as total debts divided by total assets. *Firm size* has a positive influence on philanthropy, since larger firms have not only greater resources but also higher visibility (Jia & Zhang, 2013; Marquis & Lee, 2013). We used the natural log of a firm's total asset to measure firm size. Last, since older firms are more embedded in philanthropy networks and tend to contribute more (Marquis & Lee, 2013), we included *firm age* in the model.

Corporate philanthropy is also influenced by industry and year factors. Firms may face uncertainty in corporate philanthropy and, thus, benchmark competitors for guidance (DiMaggio & Powell, 1983). To control for the potential imitation effects in philanthropy, we included the *average industry giving* in the model, which is expected to have a positive effect on philanthropy. To correct for skewed values, we log transformed this variable. Last, we included *industry and year dummies* in the regression model, because corporate philanthropy varies systematically across industrial sectors and years (Marquis & Lee, 2013).

Statistical Model

We used firm fixed effects models for all our analyses. The main benefit of using fixed effects models is to control for potential confounding effects related to time-invariant firm-specific factors such as firm capabilities, organizational culture, enduring routines, just to name a few. These factors may affect both institutional

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ownership and corporate philanthropy. Specifically, we used the xtreg command in STATA with the fixed effects option.

We argued that institutional ownership leads to more corporate philanthropic giving. However, philanthropic giving may also affect institutional ownership, causing a problem of reverse causality. We believe this problem is not so severe since corporate philanthropy for firm *i* during year *t* was regressed on independent (i.e., institutional ownership) and control variables at the beginning of year *t*. Corporate philanthropy at year *t* is unlikely to influence institutional ownership at the beginning of year *t*. Additionally, we tested the influence of corporate philanthropic giving on institutional ownership and found that corporate philanthropic giving in year *t* has a nonsignificant negative effect on institutional ownership in year $t + 1$ ($t = -0.71$, $p = 0.48$), suggesting that reverse causality is not a serious threat.

RESULTS

Table 3 presents the correlations and descriptive statistics for the pertinent variables. Because there is a high correlation between firm size and cash available ($r = 0.75$), we ran diagnostics to ensure that the results are not influenced by multicollinearity. The mean variance inflation factor across all models is well below 10 (the suggested threshold point), indicating that multicollinearity is not a serious threat.

Main Effects

Table 4 summarizes the estimations of the effects of institutional ownership on corporate philanthropic giving. Model 1 shows a positive and significant coefficient on institutional ownership, providing support for hypothesis 1. Model 2 investigates the effects of domestic and foreign institutional ownership on corporate philanthropic giving. The results of model 2 indicate that the effect of domestic institutional ownership on corporate philanthropic giving is positive and significant while that of foreign institutional ownership is negative and not significant, which is consistent with the prediction of hypothesis 2. Further, the results from a Wald test to investigate whether domestic institutional ownership has a stronger influence on corporate philanthropic giving than foreign institutional ownership were not significant ($p = 0.47$). Therefore, hypothesis 2 receives only partial support. Model 3 shows that although both long-term and short-term institutional ownership have a positive effect on corporate philanthropic giving, the coefficient is much larger and more significant for long-term institutional ownership, providing support for hypothesis 3. Further robustness is found by using a Wald test; the effect of long-term institutional ownership is statistically stronger than that of short-term institutional ownership ($p < 0.01$). Hypothesis 3, thus, receives strong support.

Moderating Effects

Table 5 presents the results of the moderating effects of ownership type and regional institutional development. Hypothesis 4 predicts that the effect of institutional

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Table 3. Means, standard deviations, and correlations

Variables	*Mean*	*S.D.*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*
1. Log (Corporate giving)	7.53	6.09																
2. Institutional ownership	0.088	0.16	0.21*															
3. Domestic institutional ownership	0.085	0.15	0.21*	0.997*														
4. Foreign institutional ownership	0.003	0.01	0.07*	0.26*	0.17*													
5. Long-term institutional ownership	0.003	0.01	0.07*	0.41*	0.41*	0.10*												
6. Short-term institutional ownership	0.082	0.15	0.21*	0.993*	0.997*	0.17*	0.33*											
7. Private firm	0.39	0.49	− 0.05*	− 0.10*	− 0.09*	− 0.05*	− 0.05*	− 0.09*										
8. Ownership of largest shareholder	0.39	0.16	− 0.03*	0.10*	0.10*	0.05*	0.04*	0.10*	− 0.30*									
9. Board size	9.47	2.04	0.08*	0.08*	0.08*	0.07*	0.05*	0.08*	− 0.20*	0.02								
10. CEO tenure	3.86	0.73	0.04*	0.07*	0.07*	0.02	0.03*	0.07*	− 0.01	0.00	0.03*							
11. CEO age	45.75	6.62	0.02	0.05*	0.05*	0.03*	0.02*	0.05*	− 0.17*	0.05*	0.06*	0.06*						
12. ROA	0.02	0.13	0.12*	0.21*	0.21*	0.07*	0.08*	0.21*	− 0.06*	0.09*	0.05*	0.06*	0.04*					
13. Cash available	19.08	1.51	0.28*	0.36*	0.36*	0.11*	0.14*	0.36*	− 0.27*	0.22*	0.21*	0.07*	0.11*	0.28*				
14. Leverage	0.54	0.49	− 0.03*	− 0.08*	− 0.08*	− 0.03*	− 0.03*	− 0.08*	0.11*	− 0.12*	− 0.05*	− 0.03*	− 0.01	− 0.27*	− 0.27*			
15. Firm size	21.29	1.09	0.28*	0.36*	0.36*	0.13*	0.14*	0.35*	− 0.32*	0.23*	0.25*	0.03*	0.16*	0.13*	0.75*	− 0.12*		
16. Firm age	11.37	4.39	0.01	− 0.08*	− 0.08*	− 0.02	− 0.04*	− 0.08*	0.05*	− 0.32*	− 0.09*	− 0.04*	0.04*	− 0.06*	− 0.12*	0.16*	0.02	
17. Industry average giving	7.21	2.16	0.17*	0.11*	0.11*	0.02*	− 0.02	0.11*	0.002	− 0.08*	− 0.06*	0.04*	0.08*	0.05*	0.10*	0.004	0.14*	0.17*

Notes: *$p < 0.05$.

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Table 4. Effect of institutional ownership on corporate philanthropic giving

	(1)	(2)	(3)
Institutional ownership	1.53***		
	(0.57)		
Domestic institutional ownership		1.58***	
		(0.57)	
Foreign institutional ownership		− 1.97	
		(4.83)	
Long-term institutional ownership			16.31***
			(5.00)
Short-term institutional ownership			1.07*
			(0.60)
Ownership of largest shareholder	− 2.44***	− 2.42***	− 2.47***
	(0.93)	(0.93)	(0.93)
Board size	0.10*	0.10*	0.10*
	(0.05)	(0.05)	(0.05)
CEO tenure	− 0.03	− 0.03	− 0.03
	(0.09)	(0.09)	(0.09)
CEO age	− 0.03***	− 0.04***	− 0.03***
	(0.01)	(0.01)	(0.01)
ROA	0.78	0.78	0.78
	(0.48)	(0.48)	(0.48)
Cash available	0.28***	0.28***	0.28***
	(0.09)	(0.09)	(0.09)
Leverage	0.01	0.01	0.01
	(0.19)	(0.19)	(0.19)
Firm size	0.99***	0.99***	1.01***
	(0.20)	(0.20)	(0.20)
Firm age	0.09	0.09	0.09
	(0.12)	(0.12)	(0.12)
Industry average giving	0.17	0.17*	0.17
	(0.10)	(0.10)	(0.10)
constant	− 20.91***	− 20.89***	− 21.21***
	(3.67)	(3.67)	(3.67)
R^2 Overall	0.15	0.15	0.15
F statistic	48.42***	46.64***	47.03***
Observations	7661	7661	7661

Notes: Standard errors are reported in the parentheses. Industry and year dummies are included but not reported due to space limitation.
*p < 0.10, **p < 0.05, ***p < 0.01. Two-tail tests.

ownership on corporate philanthropic giving is stronger in private firms than in state-owned firms. Initially, we included the interaction term between institutional ownership and the dummy of private firm in the model to test this hypothesis. However, a fixed effects model is not ideal, because the model includes a time-invariant variable – private firm. Thus, we ran two separate procedures: first, we generated two subsamples (one sample is private firms, and the other one is state-owned firms) and used fixed effects models in these two subsamples separately; second, we used a random effects model that included the interaction term for the entire sample. These two procedures yield largely equivalent results. We report the

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Table 5. Moderating effects of ownership type and institutional development

	(1) Private firm	*(2) SOE*	*(3) High institutional development*	*(4) Low institutional development*
Institutional ownership	3.76***	0.72	0.98	1.91**
	(1.12)	(0.67)	(0.81)	(0.80)
Ownership of largest shareholder	− 2.06	− 3.63***	− 0.27	− 3.73***
	(1.46)	(1.29)	(1.50)	(1.21)
Board size	0.26***	− 0.00	0.03	0.13*
	(0.09)	(0.07)	(0.08)	(0.07)
CEO tenure	0.16	− 0.20*	− 0.02	− 0.05
	(0.14)	(0.11)	(0.13)	(0.11)
CEO age	− 0.05**	− 0.02	− 0.04*	− 0.03*
	(0.02)	(0.02)	(0.02)	(0.02)
ROA	0.88	0.45	0.11	1.34**
	(0.60)	(1.27)	(0.78)	(0.67)
Cash available	0.36***	0.10	0.23	0.29**
	(0.13)	(0.14)	(0.15)	(0.12)
Leverage	0.35	− 1.28	− 0.06	0.22
	(0.25)	(0.82)	(0.26)	(0.31)
Firm size	1.20***	1.11***	1.18***	0.89***
	(0.31)	(0.30)	(0.32)	(0.26)
Firm age	0.09	0.14	0.47***	− 0.29*
	(0.22)	(0.14)	(0.17)	(0.17)
Industry average giving	0.23	0.08	− 0.15	0.48***
	(0.20)	(0.12)	(0.14)	(0.15)
constant	− 29.25***	− 17.96***	− 25.62***	− 17.18***
	(5.68)	(5.17)	(5.72)	(4.86)
R^2 Overall	0.19	0.10	0.09	0.13
F statistic	23.19***	26.28***	25.34***	24.81***
Observations	2841	4624	3653	4008

Notes: Standard errors are reported in the parentheses. Industry and year dummies are included but not reported due to space limitation.
*$p < 0.10$, **$p < 0.05$, ***$p < 0.01$. Two-tail tests.

first option because it yields more accurate results, since fixed effects models control for time-invariant firm-specific effects and for the correlation between the right-hand side variables and omitted variables in the error term (Bettis, Gambardella, Helfat, & Mitchell, 2014).

Table 5 models 1 and 2 present the results of fixed effects estimations. Institutional ownership has a positive and significant effect in private firms, while this effect is not significant in state-owned firms, providing support for hypothesis 4. Furthermore, the random effects regression indicates that the interaction term between institutional ownership and private firm is significantly positive ($p < 0.01$). Thus, hypothesis 4 receives strong support.

Hypothesis 5 suggests that the effect of institutional ownership on corporate philanthropic giving is stronger in regions with low institutional development. To test this hypothesis, we used a fixed effects model, including the interaction term of institutional ownership and regional institutional development, which yielded a

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nonsignificant negative effect. To further investigate, we reviewed the regional institutional development measure and found that, although it is not a time-invariant variable, the variance is relatively low for each region across the sample period. For example, the mean of regional institutional development of Shanghai during 2003–2008 is 10.38, while the standard deviation is 0.82, which partially explains why the interaction term is not significant. As a robustness check, we created two subsamples based on the median of regional institutional development and then ran fixed effects regressions on each subsample. Models 3 and 4 in Table 5 present the results. The effect of institutional ownership on corporate philanthropy is positive and significant in low institutional development regions, while it is not significant in high institutional development regions. Therefore, hypothesis 5 receives partial support.

As a robustness check, we further investigate the moderating effects of ownership type and regional institutional development on the relationship between ownership of different institutional investors and corporate philanthropy. Employing two subsamples and using fixed effects models, we found that all types of institutional investors play a more significant role in private firms than in state-owned firms and in regions with low institutional development, giving additional support for hypothesis 4 and 5.[9]

Control Variables

The results of the control variables highlight a number of additional noteworthy relationships. CEO tenure has a negative but nonsignificant coefficient, failing to support the argument that long-tenured CEOs are less likely to respond to externally oriented activities such as philanthropy (Marquis & Lee, 2013). One possible explanation is that CEO tenure is relatively smaller and with lower variance for our sample. For instance, the mean and standard deviation of CEO tenure is 3.86 and 0.73 for our sample, while it is 6.12 and 6.95, respectively, for the Fortune 500 companies (Marquis & Lee, 2013). Firm size and cash available have positive and significant coefficients while ROA is insignificant, suggesting that corporate philanthropy is driven more by available resources than by financial performance (Marquis & Lee, 2013). In line with prior research (Zhang et al., 2009), leverage does not have an effect on philanthropy, suggesting that debt holders may not be actively involved in corporate philanthropy.

DISCUSSION

We began this study by considering the extent of institutional investors' influence on corporate philanthropy in emerging economies such as China. Our theoretical arguments suggest that institutional ownership has a positive effect on corporate philanthropic giving, and this effect is stronger when there is clear goal alignment. Our study yields strong empirical evidence, which has theoretical implications

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for our understanding of the institutional ownership-corporate philanthropy relationship within an emerging economy and provides a road map for greater empirical inquiry.

First, this study highlights important antecedents to corporate philanthropy in an emerging economy. Although philanthropy has become a critical component of a firm's strategic agenda, relatively little is known about the mechanisms that lead to its increased adoption (Marquis & Lee, 2013). This study provides an initial inquiry into the institutional ownership-corporate philanthropy relationship, because it shows how influential these investors are on corporate philanthropy decisions. This complements prior studies on the influence of block shareholders (Adams & Hardwick, 1998; Atkinson & Galaskiewicz, 1988; Brammer & Millington, 2004; Brown et al., 2006; Zhang et al., 2009) and contributes a more complete picture of corporate ownership structure and philanthropy.

This study also enriches our understanding of institutional investor activism in shaping CSR around the globe. With the emphasis of prior studies in the United States and United Kingdom (e.g., Coffey & Fryxell, 1991; Dam & Scholtens, 2012; Graves & Waddock, 1994; Neubaum & Zahra, 2006), there is relatively little known about the role of institutional investors in shaping CSR in emerging economies. Because of salient principal-agent conflict between dispersed shareholders and professional managers in the United States and United Kingdom, institutional investors along with other shareholders are obliged to monitor managers' decisions that harm shareholder value (La Porta, Lopez-de-Silanes, & Shleifer, 1999; Young et al., 2008). However, the major agency issue is a principal-principal conflict between controlling shareholders and minority shareholders (such as institutional investors) in emerging economies since ownership concentration is high (Li & Qian, 2013; Young et al., 2008). Accordingly, institutional investors' primary role is to prevent possible misappropriation from controlling shareholders. This study's findings show that institutional investors have acted as an important balancing force in emerging economies, extending our understanding of institutional activism to a different institutional setting. Although we focus on China, we believe our results generalize to other emerging economies, since all share the same characteristics of corporate ownership structure (i.e., highly concentrated ownership) and weak institutions (Li & Qian, 2013; Peng et al., 2008; Su, Xu, & Phan, 2008; Young et al., 2008).

Second, we demonstrate how different types of institutional investors vary largely in motives and capabilities to shape corporate philanthropy. This is a departure from prior research that has largely treated institutional investors as a uniform, and thus unified, group (e.g., Choi et al., 2013; David et al., 2001; Graves & Waddock, 1994). By aggregating institutional shares into one ownership group, researchers ignore the likely heterogeneity of institutional investors. Following recent studies (e.g., Choi et al., 2013; Oh et al., 2011), we show that different types of institutional investors have a distinct effect on corporate philanthropy. These findings are both theoretically and empirically important, because they link the heterogeneous nature

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of institutional investors to different effects on corporate strategy. Our findings also highlight the importance of stakeholder attributes in determining stakeholders' influence on corporate strategy, which provides empirical support for stakeholder identification and salience theory (e.g., Mitchell et al., 1997).

Further, this study contributes to a more comprehensive understanding of stakeholder salience by emphasizing the importance of issue attributes proposed by stakeholders. The theory of stakeholder identification and salience argues that the influence of stakeholders on corporate strategy is determined primarily by stakeholder attributes (Agle, Mitchell, & Sonnenfeld, 1999; Mitchell et al., 1997; Mitchell, Agle, Chrisman, & Spence, 2011), with limited attention paid to issue attributes. By drawing on theory related to issue salience (Bundy et al., 2013), we confirm how institutional investors' influence on corporate philanthropy is determined by *both* the attributes of institutional investors and the issues they promote (i.e., the extent that corporate philanthropy aligns with firm goals). Therefore, to fully understand stakeholder salience, scholars need to consider both stakeholder and issue attributes.

Last, this article helps to reconcile the mixed results regarding the effects of institutional ownership on CSR. Specifically, studies have found a positive relationship between institutional ownership and CSR (Harjoto & Jo, 2011; Jo & Harjoto, 2011; Neubaum & Zahra, 2006), as well as no significant relationship (Barnea & Rubin, 2010; Dam & Scholtens, 2012). Our study demonstrates how different types of institutional investors have varying effects on corporate strategy. Since the composition of institutional investors differs largely depending on the research setting, a focus on institutional ownership as a whole may lead to misleading results. Furthermore, we demonstrate how stakeholder issue-firm goal alignment is important, which suggests that future research must also consider the attributes of the issues proposed by stakeholders. Since firms may perceive CSR to be consistent with, contradictory, or unrelated to firm goals under different conditions, it is not surprising that earlier studies have yielded mixed findings. To further reveal the effects of institutional ownership on CSR, future studies need to model the congruence (or noncongruence) between CSR and firm goals.

Limitations and Future Research Directions

This study has several limitations that offer opportunities for future research. First, we propose that institutional ownership has a stronger effect on corporate philanthropy when there is strong alignment between philanthropy and firm goals. However, we were unable to measure this directly due to data limitations; rather, we used an alternative strategy to reflect the alignment. Specifically, we argued that philanthropy is more aligned with firm goals in private firms than in state-owned firms and in regions with low institutional development. Although we are confident in our results and conclusions, we believe that future studies should develop direct measures to provide a stronger empirical test of this relationship.

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Second, managers play an important role in the theory of stakeholder identification and salience since 'manager's perception of a stakeholder's attributes is critical to the manager's view of stakeholder salience' (Mitchell et al., 1997: 871). Therefore, Mitchell et al. (1997) suggested that managerial characteristics such as values may be important moderators. For example, managers' sense of self-interest or self-sacrifice may be a potential moderator between institutional ownership and corporate philanthropy. However, we were unable to survey managers directly and, thus, did not include managerial characteristics in this study. Future studies can use survey methods to investigate the moderating effects between institutional ownership and corporate philanthropy, which will extend our understanding about managers' role in determining stakeholder salience.

Last, although China is the largest emerging economy and is a suitable context to test our theoretical framework, the findings of this study may not generalize to other emerging economies. We believe future studies need to examine the effect of institutional ownership on corporate philanthropy in other emerging economies, which not only helps to test the generalizability of this study, but also provides a more comprehensive picture of the relationship between institutional investor salience and corporate philanthropy within emerging economies.

Policy Implications

This study also provides important guidelines and practical implications for policy makers in China. First, this study is a timely review given the significant regulatory efforts currently underway to develop a more robust institutional investor environment. Despite these efforts, institutional investors' governance role and their impact on corporate philanthropy is poorly understood. There is a commonly accepted belief that institutional investors play a very limited role in corporate governance and firm strategic decision-making in China (e.g., Tenev et al., 2002). However, our findings show that institutional investors exert important influence on important strategic decisions, which suggests that the efforts of the Chinese government to 'institutionalize' institutional investing may be working.

Second, policy makers must acknowledge institutional investor heterogeneity, because foreign institutional investors encounter difficulty in monitoring, limiting their effectiveness in shaping corporate decisions. Governments need to promote a more transparent institutional environment and more international comparable rules and regulations to attract foreign institutional investors as well as to empower them to improve corporate governance. Compared with short-term institutional investors, long-term institutional investors are more willing to push managers to make decisions that make the firm more sustainable. Thus, policy makers need to provide incentives for long-term institutional investors, especially in countries that are dominated by short-term institutional investors.

Third, this study provides guidance for institutional investors investing in emerging economies. First, compared with domestic and long-term institutional

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investors, foreign and short-term institutional investors must enter with a diversified portfolio, because they are unable to reduce risk by shaping corporate decisions. In addition, since firms are more likely to respond to institutional investors when there is a shareholder claim–firm goal alignment, institutional investors need to evaluate possible goal (mis)alignment when making investment decisions.

Last, this study helps international investors understand the different characteristics of ownership, governance, and strategic decision-making in China. China's rapidly growing corporate sector and stock market are increasingly integrated with the global economy in diverse ways, such as foreign direct investment, introduction of the QFII scheme (2002), and increased overseas listings. The Chinese corporate sector offers institutional investors both an attractive investment proposition and a mechanism to diversify their holdings. This study helps investors, especially foreign investors, understand the effect of institutional ownership on strategic decision-making, especially when considering the investment time horizon.

CONCLUSION

Although institutional investors are changing the landscape of corporate governance in emerging economies, relatively little is known about their role in firm strategic decision-making. By integrating the theory of stakeholder identification and salience with the work on issues salience, we shed light on the role of institutional investors in corporate philanthropy. Our study demonstrates that institutional investors can shape important corporate decisions in emerging economies and act as a buttress in firms previously dominated by a controlling shareholder. As institutional investors continue to grow, they will induce further fundamental changes in corporate governance in emerging economies. This study offers a starting point for further inquiry into the role of institutional investors in these economies.

SUPPLEMENTARY MATERIAL

To view supplementary material for this article, please visit http://dx.doi.org/10.1017/mor.2015.33

NOTES

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[1] According to the *China Charity Report*, 32% of China's philanthropic giving was spent on education aid, 14% on poverty relief, 12% on disaster relief, and 9% on public works in 2007. The report is available on www.mca.gov.cn (accessed 26 March, 2015).

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[2] Issued by the CSRC and the State Economic and Trade Commission in 2002. It is available on www.csrc.gov.cn (accessed 26 March, 2015).

[3] For example, China issued the *Provisional Regulations for Exchange Control of the People's Republic of China* as early as 1980, and later the *Regulations on the Foreign Exchange System of the People's Republic of China* in 1996.

[4] Source: 2013 Edelman Trust Barometer (Emerging market supplement). The report is available on www.edelmangroup.cn (accessed 26 March, 2015).

[5] The State-owned Assets Supervision and Administration Commission of the State Council issued the *Interim Provisions on Business Performance Evaluations for Persons-in-Change at Central Enterprises* in 2003 (available on www.sasac.gov.cn, accessed 26 March, 2015).

[6] 397 observations with missing values for CEO tenure, 122 for CEO age, 103 for board size, and 3 for ROA and leverage, respectively. Some observations have missing values for two or more variables.

[7] To control the effect of the Wenchuan earthquake, we included year dummies in the models, which largely capture the effect of a huge event in a specific year. As a robustness check, we excluded observations in the year 2008 and got similar results.

[8] China issued the *Interim Provisions on the Administration of the National Social Security Fund* in 2001 (available on www.ssf.gov.cn, accessed 26 March, 2015) and the *Trial Measures for the Management of Enterprise Annuities Fund* in 2004 (available on www.gov.cn, accessed 26 March, 2015).

[9] The detailed results are not reported here but are available upon request.

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