

# Does Family Involvement Make Firms Donate More? Empirical Evidence From Chinese Private Firms

(Authors: Junsheng Dou, Zhongyuan Zhang and Emma Su)

**Research Applied précis prepared by Nava Michael-Tsabari, Technion – Israel Institute of Technology**

This article's research question is: *Whether and under what condition family involvement positively impacts firms' charitable donations?*

The authors studied 2,921 private Chinese firms' charitable donations, which are seen as a main part of firms' proactive stakeholder engagement (PSE). Donations are a discretionary responsibility, which means that firms make their own decisions on whether and how much to donate. Donations also put pressure on firms' flow of cash and other resources, and thus are short-term sacrifices for the potential long-term advantages of enhancing firms' reputations and public images and accumulating moral and social capital for the firm.

The authors define family involvement as composed of three dimensions:

- *Family ownership* describes the ownership percentage of the family
- *Family management* describes how many family members are practically involved in management
- *Family duration of control* describes how long the family has control over the firm

The authors argue that these three dimensions of family involvement positively influence the level of donations. They further tested whether or not the willingness of the next generation to assume control of the firm altered these relationships.

The importance of measuring the influence of family involvement on charitable donations lies in its theoretical implications since it demonstrates the different logic attributed to family firm owners as compared to nonfamily ones. An empirical validation like this study could help researchers and practitioners answer questions such as:

- Do family firms really have a different decision making process?
- Do family owners really sacrifice economic short-term gains for the long-term ones?
- What dimension of family involvement influences the social initiative at the firm level?
- What is the negative influence of the next generation's unwillingness to assume control of the firm on charitable donations?

This study found that family ownership and duration of control were positively associated with charitable giving. The study further shows that family percentage of ownership and a longer duration of family control have a significant positive influence on charitable donations.

However, the next generation's unwillingness to assume control of the firm weakened the positive family ownership-charitable giving relationship. This study reinforces the role of the

next generation of family business leaders on the long-term orientation and pro-social behavior of family firms.

Practitioners will find that this study continues the stream of recent family business research which demonstrates the power of non-financial pursuits in family firms. Practitioners need to continue to be cognizant of the strength of the non-financial pursuits of their clients.