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GUILT AND CORPORATE PHILANTHROPY: THE CASE OF THE PRIVATIZATION IN CHINA

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Firms' harm-inflicting decisions/actions can make firm leaders feel guilt toward those who are harmed, which then motivates them to make restitution through corporate philanthropy. Our primary setting for investigating this proposition is the privatization of Chinese firms. We argue that massive layoffs resulting from privatization triggered guilt among firm leaders to drive corporate philanthropy. The analysis of a national survey of Chinese private firms shows that on average privatized firms made approximately 26% more charitable contributions than firms founded as private. This was particularly the case when (a) privatization resulted in layoffs (vs. no layoffs), (b) the firms' provinces experienced greater unemployment at the time of privatization, (c) the firms' leaders were directly involved in privatization, (d) the influence of Confucianism was stronger in their provinces, and (e) firm leaders had stronger ties with laid-off workers. An interview-based field study of 25 firm leaders involved in privatization provides qualitative evidence of the influence of guilt on privatized firms' philanthropy. Finally, a vignette experiment conducted on EMBA students shows the mediation of guilt between privatization and firms' philanthropic intention. These findings establish guilt as a potent emotional driver of corporate philanthropy, helping redirect the attention of corporate philanthropy research toward nonfinancial drivers.

What drives firms to engage in philanthropy? George Kaiser, chairman of BOK Financial, has pointed to a potent but underappreciated driver of corporate philanthropy: "I suppose I arrived at my charitable commitment largely through guilt" (Callahan, 2017: 38). Bringing together two largely unconnected observations does seem to lend credence to Kaiser's reflection. First, psychology research has shown that guilt motivates a strong desire to make restitution to harmed others and even leads to altruism and generally prosocial behaviors (Baumeister, Stillwell, & Heatherton, 1994; Dahl, Honea, & Manchanda, 2005; Estrada-Hollenbeck & Heatherton, 1998; O'Connor, Berry, & Weiss, 1999; Rawlings, 1968; Tangney, 1995). Second, business research has shown that firms can inflict serious harm, intentionally or not, on employees, investors, and the public due to downsizing (Agrawal & Matsa, 2013), safety errors (Fisman & Wang, 2015), layoffs (Agrawal & Matsa, 2013), financial misconduct (Yu, 2013), and pollution (Schlenker & Walker, 2015), for example. It thus stands to reason that guilt may also be aroused in firm leaders to drive corporate philanthropy as a means of providing restitution to those harmed by their decisions and actions. Indeed, Crilly, Schneider, and Zollo (2008), while not finding a significant effect of guilt on middle managers' socially responsible behaviors, insisted on the importance of guilt as a driver, urging future research to better situate the investigation of guilt in organizational contexts.

Studying guilt as a driver of corporate philanthropy can benefit both corporate philanthropy

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research and practice. What drives firms to engage in philanthropy, while always being a central question to corporate philanthropy research (McWilliams & Siegel, 2001), has gained new importance in light of recent research. That is, drivers of corporate philanthropy and firms' communication of these drivers to the public provide critical cues for the public to evaluate and react to corporate philanthropy (Crilly, Hansen, & Zollo, 2016; Cuypers, Koh, & Wang, 2015; Koh, Qian, & Wang, 2014). Yet, research has predominantly viewed corporate philanthropy as firms' calculated responses to external pressures to improve their financial bottom line (Aguinis & Glavas, 2012; Margolis & Walsh, 2003). Omitted from this rational view are the roles of "living, breathing, whole human beings" (Dutton, 2003: 12) inhabiting and leading firms in driving corporate philanthropy (Muller, Pfarrer, & Little, 2014). Recent studies have indeed shown initial insights that firm leaders' philanthropy decisions are also driven by their ideological values (Chin, Hambrick, & Treviño, 2013; Gupta, Briscoe, & Hambrick, 2017) and empathy (Muller et al., 2014), for example. Thus, calls have repeatedly gone out for greater attention to be paid to nonfinancial drivers of corporate philanthropy (e.g., Crilly et al., 2008; Gond, El Akremi, Swaen, & Babu, 2017). Studying firm leaders' guilt as a driver of corporate philanthropy aligns with this research agenda and promises to yield significant insights into firms' engagement in philanthropy given guilt's great capacity to bring out altruism and prosocial behaviors (Lewis, 1971; Tangney, 1995). Moreover, because guilt gives rise to genuine concern about harmed others (Tangney, 1995), guilt-motivated philanthropy is more likely to be perceived as sincere and perceived to produce greater value for firms and society (Cuypers et al., 2015). Thus, studying guilt as a driver of corporate philanthropy will add "long-needed guidelines for policy and practices to answer the pressing questions of when, how, and what CSR efforts are most impactful" (Wang, Gibson, & Zander, 2020: 6).

This study aims to establish guilt as a driver of corporate philanthropy. Following Crilly et al.'s (2008) suggestion, we situate the investigation of guilt in organizational contexts in two ways. We first link guilt with firms' harm-inflicting decisions/actions, examining whether firms' harm-inflicting decisions/actions can lead firms to engage in more philanthropy to offer guilt-motivated restitution to those who are harmed. We further contextualize theorizing in a particular strategic action of firms—the privatization of state-owned enterprises (SOEs) in China—because the distress inflicted on tens of millions of laid-off workers and their families provides a great opportunity to examine the effect of guilt. We conduct three studies to answer our research question. First, building on the interpersonal perspective of guilt (Baumeister et al., 1994; Estrada-Hollenbeck & Heatherton, 1998; Lewis, 1971; O'Connor et al., 1999; Tangney, 1995), we deduce a set of testable hypotheses to capture the manifested effect of guilt by positing: (a) the main effect of privatization as a harm-inflicting firm action and (b) the moderating effect of three conditions conducive to the arousal of guilt (i.e., the severity of harm, the responsibility for harm, and concern for the harmed). We test these hypotheses using a national survey of Chinese private firms. Second, we conduct field research by interviewing 25 leaders of privatized SOEs to validate our interpretation of the results from the first study and provide qualitative evidence for guilt. Third, we conduct a vignette experiment to directly test the mediating effect of guilt by using EMBA students who could resonate with leaders of privatized SOEs due to their extensive executive experience or witnessing of the privatization of SOEs in China.

The three studies provide converging evidence that firm leaders' guilt is at least partly responsible for the observed effect of privatization on corporate philanthropy. Our analysis shows that experiencing privatization alone can increase firms' charitable contributions by approximately 26% via arousing guilt. Moreover, privatized SOEs with layoffs made 197% more charitable contributions than privatized SOEs without layoffs. Thus, for the first time, we establish guilt as a potent driver of corporate philanthropy, which in and of itself warrants serious attention from corporate philanthropy research. In addition, this study provides a strong testimony to the importance of examining nonfinancial drivers of corporate philanthropy. We showed that even the pursuit of such a financially justifiable strategic action like privatization in our case did not preclude firm leaders from feeling guilty toward those harmed by their decisions and actions and making restitution accordingly. That is, the financial bottom line did not seem to trump firm leaders' moral and humanistic bottom line. Thus, our study could help redirect corporate philanthropy research to look beyond the rational view to understand nonfinancial drivers of corporate philanthropy. This study also has important implications for the practice of corporate philanthropy in at least two ways. First, expressing guilt and making restitution can be important emotional abilities for managers to enhance the organizational identification of employees and counter the cynical view of corporate philanthropy to engender a more positive response from the public. Second, to engage firms in philanthropy, the public does not always have to pressure firms via condemnation, protest, and boycott but can also appeal to firm leaders' guilt to elicit sincere and valuable philanthropic efforts from firms.

THEORY

A firm's business decisions and actions can inflict harm on its employees, local community, and the wider public. For example, when British Petroleum aggressively cut operational costs to remain competitive, it also compromised its safety measures, causing the Texas City Refinery explosion and a massive oil spill in Alaska and the Gulf of Mexico. These accidents killed a number of workers, left their families in endless grief, and polluted the environment disastrously. In response, firms may engage in more corporate philanthropy due to public pressure or because of firm leaders' feelings of guilt toward those harmed by their decisions and actions. We explore the latter possibility in the context of privatization in China by considering privatization as a harm-inflicting firm action. Because privatization was a nationwide policy, privatized SOEs and their leaders were less likely to be perceived as irresponsible when laying off workers (blame, if any, should mostly be directed at the government). Thus, the external pressure for corporate philanthropy was naturally controlled for. To capitalize on this feature and identify the effect of guilt, we adopted contextualized theorizing to develop testable hypotheses for guilt-driven corporate philanthropy as an understudied phenomenon (Uzzi & Lancaster, 2004). We first describe privatization and then build on the interpersonal perspective of guilt to theorize about how experiencing privatization might cause firms to engage in more philanthropy.

Privatization in China

In 1956, China introduced a centrally planned economy, with SOEs carrying out the production and distribution of goods according to quotas set by the central government. After the implementation of the "Reform and Opening Up" policy in 1978, the development of a market economy gradually exposed the inefficiency of SOEs, especially as compared to revived and fast-growing private firms. The lack of efficiency increasingly rendered SOEs such a burden to the government that the need for restructuring became inevitable (Zhang, 2005, 2006). The 15th Party Congress in 1997 issued guidelines for reforming SOEs (i.e., *zhuadafangxiao*, meaning "grasp larger SOEs while letting go of smaller ones"). Many privatized SOEs cut redundant personnel to lower costs and improve efficiency. During our study period, the number of SOE employees decreased by more than 46 million, representing nearly 43% of total employment by SOEs at its peak and 11% of total employment in China as a whole (excluding farmers) (National Statistical Yearbooks, 1998–2006).

The large-scale layoffs inflicted great harm on many individuals and their families. Layoffs can create serious physical and mental distress (Agrawal & Matsa, 2013) because it often takes a long time for those who have been laid off to find new jobs, and they experience significant wage cuts when reemployed (Kivimäki, Vahtera, Elovainio, Pentti, & Virtanen, 2003). These problems are far worse for laid-off SOE employees. In the planned economy, SOE employees had *tiefanwan*, or an "iron rice bowl" that could not be broken (a metaphor for never losing one's job and employment benefits). The highly coveted job security and benefits gained from SOE employment also provided workers with high social status. Being laid off was a difficult blow to many SOE workers, as they had to cope with losing both their jobs and face. Moreover, because job security disincentivized SOE workers from engaging in professional development, many could not find new jobs once they were laid off. Without a social security system, laid-off SOE workers had to endure both economic and mental distress. A large-scale field study of laid-off SOE workers in a northern city (Sun & Guo, 2010) described in detail how the financial distress of laid-off SOE workers destroyed their families and resulted in mental distress and even deaths, as two workers described:

> "The divorce rate has been extremely high in recent years in the tractor factory [used to be an SOE]. There were very few divorces in the past. Divorces now are so normal … Only one reason: poverty. If both [husband and wife] could have jobs and go to work every day to earn money, they would not divorce." (Sun & Guo, 2010: 90)

> "During the past five or six years, there were over ten unnatural deaths in those apartment buildings. Most of them were still young and passed away unexpectedly. This never happened before … Too many died over these few years because of enormous mental

pressure [resulting from losing jobs]." (Sun & Guo, 2010: 93–94)

Similar difficulties were experienced by laid-off SOE workers and their families throughout the nation, as documented by other field studies (Zhang, 2005, 2006; Zhou, 2001).

Privatization and Restitution via Corporate Philanthropy

Academic understanding of guilt evolved partly as a result of the debate over its distinction from the concept of shame (Tangney, 1995). The advancement of an interpersonal perspective of guilt (Baumeister et al., 1994; Estrada-Hollenbeck & Heatherton, 1998) helped settle the debate (O'Connor et al., 1999). This perspective developed directly from the distinction made by Lewis (1971: 30): "The experience of shame is directly about the *self*, which is the focus of evaluation. In guilt, the self is not the central object of negative evaluation, but rather the *thing* done or undone is the focus." By emphasizing the "self," individuals who feel shame are keenly concerned with others' evaluations of them. The notion that one might look bad in another's eyes leads one to question one's core identity and moral character (Creed, Hudson, Okhuysen, & Smith-Crowe, 2014), creating a strong sense of smallness, shrinking, worthlessness, powerlessness, and helplessness (Lindsay-Hartz, 1984). Thus, shame causes one to be "egocentric" (Tangney, 1995). In contrast, by stressing "things" in evaluation, individuals who feel guilt are acutely concerned with the harm that their behavior inflicts on others. Seeing or even just imagining another's suffering due to one's behavior creates remorse about the harm that one's behavior inflicts on others, leading one to regret one's behavior or desire to undo one's behavior and its harm (Lindsay-Hartz, 1984). Thus, guilt leads one to be "other-oriented" by assuming an interpersonal perspective (Tangney, 1995).

The interpersonal nature of guilt makes many behaviors capable of arousing guilt when they are perceived as inflicting harm on others (Estrada-Hollenbeck & Heatherton, 1998). For example, doing better (e.g., living a happier life, being healthier, and getting better grades) can cause "outdoing guilt" to the extent that doing better might make others (look) worse (Modell, 1971). Escaping downsizing can result in "survivor guilt" because one's survival might be interpreted as meaning another's loss (Brockner, Davy, & Carter, 1985; Brockner, Greenberg, Brockner, Bortz, Davy, & Carter, 1986). Obtaining benefits as a member of a privileged group can cause one to feel guilty toward an unprivileged group, even when one did not directly cause the inequality between them (Powell, Branscombe, & Schmitt, 2005). Buying nothing in stores is likely to make consumers feel guilty toward salespersons when social connectedness with salespersons exists (e.g., as a result of salespersons exerting efforts to introduce products and provide services to consumers) (Dahl et al., 2005). In all these examples, nothing could make one question one's own core identity to arouse shame.

The distinct psychological experiences of guilt have distinct behavioral implications. Guilt, by bringing out an other-oriented focus, draws one further away from the self but closer to harmed others (Eisenberg, 1986; Hoffman, 1982). Guilt has even been found to be likely to promote altruism and prosocial behaviors by invoking empathy (Eisenberg, 1986; Estrada-Hollenbeck & Heatherton, 1998; Hoffman, 1982; Rawlings, 1968). Thus, guilt motivates restitution to harmed others (O'Connor et al., 1999; Tangney, 1992) to alleviate the distress (e.g., worry, anxiety, and tension) resulting from seeing or imagining others' suffering as the result of one's behaviors (Ferguson, Stegge, Miller, & Olsen, 1999). For example, when buying nothing makes consumers feel guilty toward salespersons, they are likely to buy more during future interactions with salespersons (Dahl, Honea, & Manchanda, 2003). Guilt-evoked negative experiences are so unbearable that employees even undertake proactive efforts to avoid feeling guilty by not letting others down through hard work (Grant & Wrzesniewski, 2010).

The above notion of guilt, while developed based on research in Western cultures, can also be applied to the Chinese context in which we situate our theorizing because "[t]here are broad similarities in the Western and Chinese experiences of guilt and shame" (Bedford, 2004: 47). Although Chinese culture can differentiate between more types of guilt experiences (i.e., *nei jiu*, *zui e gan*, and *fan zui gan*) than Western cultures (Bedford, 2004), this difference does not change the nature of guilt as an other-oriented moral emotion (Bedford, 2004; Stipek, 1998). This is especially true of *nei jiu*, which our field research found to be the primary type of guilt felt by firm leaders. Akin to guilt in Western cultures, *nei jiu* is personal guilt aroused by one's own action that violates the deservedness of, or fails to uphold an obligation to, another person, and it is always felt toward another person (Bedford, 2004).

Thus, we build on the interpersonal perspective of guilt to theorize about how privatization could lead privatized SOEs to engage in more philanthropy. Firm leaders, while simply following the national policy to privatize SOEs, might still feel guilty or *nei jiu* when laying off SOE workers. First, managers typically consider downsizing as dirty work because of the harm that their direct behaviors inflict on laid-off workers even if it was not their decision to downsize (Gandolfi, 2009). Thus, much like managers in general (Margolis & Molinsky, 2008), firm leaders might feel guilty about laying off SOE workers as well. Second, seeing the distress of laid-off SOE workers and their families might cause firm leaders to feel guilty for not doing more to ease their suffering (e.g., fighting for more compensation for them) (Dahl et al., 2005). For example, Zhao Tuoshan, CEO of Chongqing Special Steel Company, expressed this emotion in an interview: "When we pushed them [SOE workers] out, where else could they find a job? … the 1,000 laid-off workers were in very difficult situations out there. That's why I said it was so difficult for them. We did not handle this matter well".[1] Third, firm leaders might experience survivor guilt (Brockner et al., 1985; Brockner et al., 1986), especially because of the sharp contrast in fortunes between those staying and those leaving (Sun & Guo, 2010). These three types of guilt are also likely to be heightened by the typically strong social ties between firm leaders and SOE workers (Dahl et al., 2005). Firm leaders and SOE workers typically developed strong ties as comrades, coworkers, friends, and family (Liu, 2003) as the result of spending almost their entire careers in the same SOEs (Knight & Yueh, 2004) and having to rely on each other for nearly everything in the isolated locations of many SOEs (e.g., heavy machinery factories and arms factories) in mountainous and remote rural areas (Goodman, 2013).

Research on guilt has shown that firm leaders' guilt can motivate restitution (Baumeister et al., 1994; Dahl et al., 2005; Tangney, 1995). Firm leaders can make their restitution personally (e.g., by using one's connections to help laid-off workers find new jobs or providing life necessities to laid-off workers and their families). They can also make restitution through their firm for two reasons, especially when the financial situation of their firm improves. First, regardless of how hard firm leaders try to provide personal help, their restitution is undoubtedly limited compared to the scale of layoffs and the magnitude of distress inflicted on laid-off workers and their families. Second, as firm leaders, how they feel is likely to spill over to their firm's strategic decisions and actions (Hambrick & Mason, 1984), just as a CEO's ideology (Chin et al., 2013) and empathy (Muller et al., 2014) can spill over to affect corporate philanthropy. When undertaken through firms, firm leaders' restitution to laid-off workers and their families becomes part of corporate philanthropy. Moreover, because guilt often promotes altruism and prosocial behaviors (Eisenberg, 1986; Estrada-Hollenbeck & Heatherton, 1998; Hoffman, 1982; Rawlings, 1968), restitution may not be limited to firms' own laid-off workers but can be directed to laid-off workers in general and the broad population of unfortunate, underprivileged, and suffering individuals and groups.

The preceding theorizing suggests that experiencing privatization can promote corporate philanthropy due to firm leaders' guilt and desire to make restitution. In contrast, because leaders of firms founded as private did not undergo privatization or carry out large-scale layoffs, they are unlikely to feel the same guilt aroused by privatization. It thus follows that, all else being equal, experiencing privatization may create differences in philanthropy between privatized SOEs and firms founded as private. This expectation implies that the influence of privatization on corporate philanthropy is likely to last, at least to some extent, for two reasons. First, it has taken years to address the problems that privatization created for tens of millions of people in China. The distress experienced by laid-off SOE workers and their families continues to this day, and this constant reminder keeps firm leaders' feelings of guilt alive and fresh to continuously motivate their desire to make amends via corporate philanthropy. Second, continuous restitution in the form of corporate philanthropy is likely to make corporate philanthropy a part of firms' culture and identity, which can take on a persistent life of its own, especially because stakeholders are likely to develop expectations for firms to be consistent over time (Aguinis & Glavas, 2012; Dawkins & Lewis, 2003).

Hypothesis 1. Privatized SOEs are likely to undertake more corporate philanthropy than firms founded as private.

Conditions Conducive to the Arousal of Guilt

Psychology research has shown that the extent to which a harmful act can arouse guilt depends on: (a) how severe the harm to others is, (b) whether

[1] https://sug764.wixsite.com/website

the harm-doer believes that he or she should be responsible for the harm, and (c) how concerned one is about harmed others (Baumeister et al., 1994; Berscheid & Walster, 1967; Dahl et al., 2005). We elaborate on Hypothesis 1 by examining factors that can affect the above three conditions for harm-inflicting acts to arouse guilt.

Severity of harm. Greater harm to others is more likely to cause feelings of guilt because insignificant harm can be more easily ignored and explained away (Morris & Moberg, 1994). In the case of SOE privatization, the severity of harm created by privatization could be influenced by at least two conditions. First, as noted above, the privatization of SOEs created harm because of layoffs (Sun & Guo, 2010). The scale of layoffs varied across SOEs due to their particular conditions at the time. Second, layoffs could inflict even greater harm in areas already stricken by unemployment. Sun and Guo (2010: 90) provided an example in which a couple worked for different SOEs in the same city. The privatization of both factories caused both to lose their jobs and incomes, so their financial situation quickly deteriorated. With both staying at home all the time, they often fought with each other out of frustration with their financial distress, and this affected their marriage. Thus, privatization was more likely to arouse firm leaders' guilt to drive corporate philanthropy when privatization resulted in more layoffs or when firms were located in places with a higher unemployment rate.

Hypothesis 2a. The positive effect of experiencing privatization on corporate philanthropy is stronger when the privatization of an SOE resulted in more layoffs.

Hypothesis 2b. The positive effect of experiencing privatization on corporate philanthropy is stronger for a privatized SOE located in an area with a higher rate of unemployment at the time of privatization.

Responsibility for harm. For individuals to feel guilty, they must believe that they are and should be held responsible for the harm inflicted on others (Baumeister et al., 1994; Berscheid & Walster, 1967; Dahl et al., 2005). To feel responsible for the harm inflicted on others, individuals must believe that they either directly or indirectly caused the harm (Tangney, 1995). In developing Hypothesis 1, we assume that firm leaders believe that they are responsible for the harm that privatization inflicted on laid-off SOE workers and their families. We relax this assumption by considering whether leaders of a privatized SOE were directly involved in its privatization. Involvement in the planning and execution of privatization is likely to cause firm leaders to feel at least partially responsible for the resulting harm inflicted on laid-off workers and their families (Gandolfi, 2009; Margolis & Molinsky, 2008). As a result, they are more likely to feel guilty and engage in corporate philanthropy as a form of restitution.

Hypothesis 3a. The positive effect of experiencing privatization on corporate philanthropy is stronger when the leader of a privatized SOE was involved in the privatization.

In addition, individuals differ in their willingness to take responsibility for their harmful acts (Berscheid & Walster, 1967), especially due to different moral values rooted in culture. In Chinese society, Confucianism greatly shapes people's moral values despite the founding of the new China creating social change (Ralston, Egri, Stewart, Terpstra, & Kaicheng, 1999). Confucian values have three elements, with *ren* emphasizing benevolence to or compassion for others (Wright & Twitchett, 1962), *yi* representing the principle of moral rightness (Cheng, 1972), and *li* specifying many concrete norms for social relationships (Wright & Twitchett, 1962). These three values together promote good deeds and discourage harmful acts toward others. When holding Confucian values, firm leaders are likely to be more sensitive to the harm inflicted on laid-off SOE workers and their families and feel guilty as a result. Moreover, when those around firm leaders also hold Confucian values, these individuals are likely to sensitize or even pressure firm leaders to accept responsibility for the harm. The impact of Confucian values varies across China due to its geographical vastness and the existence of many ethnic groups with subcultures (Ralston et al., 1999). Thus, in areas with a stronger Confucian influence, leaders of privatized SOEs are more likely to recognize and feel responsible for the distress experienced by laid-off SOE workers and their families as a result of privatization and thus make restitution later through corporate philanthropy.

Hypothesis 3b. The positive effect of experiencing privatization on corporate philanthropy is stronger in areas with a stronger Confucian influence.

Concern for the harmed. The interpersonal perspective of guilt suggests that individuals feel guilty about their harmful behaviors because of their concerns for the harmed (Baumeister et al., 1994; O'Connor et al., 1999). Research has shown that when performing a harmful act, one's social ties with the harmed increases one's concern for the harmed (Dahl et al., 2005). Social ties are likely to figure particularly prominently in the context of SOEs because firm leaders and SOE workers tended to develop social ties due to SOEs' limited personnel mobility (Knight & Yueh, 2004) and isolated locations (Liu, 2003), as discussed above. The strength of the social ties between firm leaders and SOE workers was also likely to vary. It often takes time for relationships to develop through interactions (Borgatti & Halgin, 2011; Gulati, 1995). The longer firm leaders worked for their SOEs, the stronger their social ties with workers. This reasoning suggests that firm leaders' tenure in their SOEs was likely to intensify the feeling of guilt aroused by privatization.

Hypothesis 4. The positive effect of experiencing privatization on corporate philanthropy is stronger when the leader of a privatized SOE had a longer tenure in the SOE.

Overview of the Three Studies

We conducted three studies to collectively test the guilt-based theory presented above. In Study 1, we leveraged a national survey of Chinese private firms to test the set of hypotheses deduced from the proposed guilt-based theory. In Study 2, we interviewed 25 former SOE leaders involved in the privatization of their SOEs to provide qualitative evidence of the guilt-based mechanism. In Study 3, we conducted a vignette experiment to directly test the mediating effect of guilt between privatization and philanthropic intention.

STUDY 1: SURVEY STUDY

Sample and Data

Since 1993, a national survey of Chinese private firms has been jointly conducted by three official organizations: the United Front Work Department, the All-China Federation of Industry and Commerce, and the State Administration for Industry and Commerce. Questionnaires are administered through face-to-face structured interviews with owners of private firms randomly sampled across all provinces and industries (Jia & Mayer, 2017). This survey fits our purpose because most privatized SOEs are not listed on stock markets. The survey is conducted every other year, with the questionnaire for each wave possibly being modified. The questionnaires for 2006 and 2008 included questions about the total charitable contributions that a private firm had made since being registered as private, allowing us to measure corporate philanthropy, which is the dependent variable in this study. We also supplemented the survey data with archival data from the National Statistics Bureau of China.

Measures

Dependent variable. Following prior studies in the Chinese context (e.g., Zhang, Marquis, & Qiao, 2016), we measured corporate philanthropy using charitable contributions. The 2006 and 2008 surveys asked firms to report the amount of their charitable contributions since their registration as private firms. The strong official backing for the survey helped to prevent respondents from giving imprecise or even dishonest answers. In addition, the face-to-face interview method used for the survey could create pressure on the respondents to be honest. We calculated the logarithm of charitable contributions as our measure.

Independent variable. The surveys contain the following questions to identify whether a firm experienced privatization: "Was your company privatized from an existing state-owned or collectively owned firm?" (collective enterprises were one type of relatively small SOEs controlled by local governments). We constructed a dummy variable with a value of "1" indicating that a private firm was privatized from an SOE and "0" indicating that a private firm was founded as private.

Moderators. Hypotheses 2a and 2b suggest that two factors could affect privatization's severity of harm to laid-off SOE workers and their families. First, although the surveys did not ask about the number of layoffs from a privatized SOE, one question could identify whether the current owner of a privatized SOE had laid off employees. The question asked "How did you obtain your firm?" with one answer being "'zero' acquisition—paid nothing to take over an SOE by using its assets to pay off debts and reemploying laid-off employees." We created a dummy variable with a value of "1" indicating that the current owner of a privatized SOE had laid off workers and "0" otherwise. Second, because the surveys asked about firms' postal codes, we measured the unemployment rate in the province where a privatized SOE was located in the year before its registration as private. Although capturing a firm's location at the province level might appear coarse, this concern is alleviated when considering that provinces in China are independent of each other and have relatively homogenous within-province economic conditions.

Hypotheses 3a and 3b suggest that two factors could influence firm leaders' willingness to assume responsibility for the harm done to laid-off SOE workers and their families. First, to measure firm leaders' involvement in the privatization of their firms, we relied on the answers to one question: "How did you obtain your firm?" Two of the six answers suggest possible involvement in privatization: (1) "Obtained by the original leaders of the SOE"; and (2) "Obtained by the SOE's employees or managers with major ownership." We created a dummy variable with a value of "1" for firms choosing the two answers and "0" otherwise. Second, we constructed a proxy of the influence of Confucianism based on historical data. Studying classic Confucian texts was required to pass the civil service exam—*keju*—which was administered at prefectural, provincial, and national levels (Bai & Jia, 2016; Kung & Ma, 2014). Candidates were named *jinshi*, *juren*, and *xiucai* if they succeeded in national, provincial, and prefectural exams, respectively. The *keju* attracted many participants due to its potential to facilitate upward social mobility, thereby allowing Confucianism to spread in China. Thus, the number of candidates succeeding in the *keju* could reflect the influence of Confucianism in an area. Systematic data are available for all 112 *jinshi* exams in the Qing Dynasty (1644–1911) (Bai & Jia, 2016). We assigned 26,746 *jinshi* and 531 *weike* (the first few spots of each national exam) to different provinces according to residential addresses. To assess the robustness of our results, we constructed two measures of the influence of Confucianism using the provincial number of *jinshi* and that of *weike*, weighted by the provincial population in 1880 (Bai & Jia, 2016) (1880 population data are used due for data reliability).[2]

To test Hypothesis 4, we needed information on the tenure of a privatized SOE's current leader in the SOE that he or she privatized. Based on the characteristics of SOEs' before privatization, we could make a reasonable estimate of tenure using information from the survey. Before privatization, SOEs typically developed leaders internally. An individual typically started to work in an SOE at an age ranging from 18 to 21 years old (start age). The survey provides the age of the current leader of a privatized SOE (birth year = survey year – age) and the year when the privatized SOE was registered as private (registration year). We then estimated tenure as follows: registration year – (birth year + start age). We found consistent results using different start years (i.e., 18, 19, 20, and 21). Our estimation procedure assumes that the current leader of a privatized SOE stayed in the same SOE. Although it is true for most of the current leaders, our measure overestimates the tenure for those violating this assumption, making it more difficult to find support for Hypothesis 4.

Control variables. To ensure that the observed effect of privatization was not an artifact of omitting confounding factors, we included a long list of control variables. First, we included six firm characteristics. Firm size is the logarithm of a firm's registered assets. Firm age is the difference between the survey year and the year of a firm's registration as private. Firm profitability is measured as return on equity. We created a dummy variable with a value of "1" indicating that the CEO of a firm was also the major owner and "0" otherwise. Government ownership is the percentage of government ownership in a private firm. In China, the North and the South differ significantly in many ways. We created a dummy variable with a value of "1" for firms located in the North and "0" otherwise. Second, we included several personal owner characteristics reported in the surveys. Owner age is the difference between an owner's birth year and the survey year. Following prior studies (Zhang et al., 2016), we measured two types of political ties: ascribed and achieved. Ascribed ties are a dummy variable with a value of "1" indicating that the owner of a firm had governmental experience and "0" otherwise. Achieved ties are a dummy variable with a value of "1" indicating that the owner of a firm is a member of the People's Congress or the Chinese People's Political Consultative Conference at the city level or above and "0" otherwise. Owner income is the logarithm of his or her reported income. The economic and social status of an owner was measured with the following two questions: "Compared with people around you, what position do you think you are in on the hierarchy (ranging from 1 to 10 with 10 as the highest) in economic (social) status?" The education of an owner is coded as 6 for a graduate degree, 5 for a bachelor's degree, 4 for an associate degree, 3 for a high school diploma, 2 for a middle school diploma, and 1 for primary school and below. The gender of an owner is a dummy variable with a value of "1" for male and "0"

[2] Because the Qing government had a fixed *jinshi* quota for each province, the first specification might reflect the Qing government's preference rather than the actual influence of Confucianism. *Weike* was not influenced by the quota system but determined by the performance of candidates on exams and is thus likely to better reflect the actual effort of studying for the civil service entrance exam.

for female. Finally, we included provincial gross domestic product (GDP) per capita in the year before a firm's registration as private to rule out that the observed effect of Confucianism simply reflected provincial economic conditions.

Statistical Analysis

The final data from the two surveys contain observations for 3,071 firms without missing values in variables of interest to this study. The dependent variable (i.e., charitable contributions) is continuous. Because provinces are largely independent of each other, our data are likely to cluster on provinces. We thus used the multilevel model by modeling cross-province mean differences as a random effect and estimating robust standard errors by clustering on province. The ordinary least squares (OLS) model also produced consistent results. To account for unobservable cross-industry and cross-year heterogeneities, we included industry- and year-fixed effects in all models. Table 1 presents descriptive statistics and the correlation matrix. The mean and maximum of the Variance Inflation Factor scores for all models are 1.52 and 4.40, respectively.

Results

Hypothesis testing. Table 2 reports the results. In Model 1, the effect of many control variables is consistent with existing studies or common sense, attesting to the validity of our data and providing a solid base for testing the hypotheses. Model 2 tests Hypothesis 1. The coefficient of privatization is positive and significant. All else being equal, on average, privatized SOEs made approximately 26% more charitable contributions than firms founded as private.[3] This 26% difference is not only statistically significant but also practically significant. For example, if the average donation by firms founded as private is 1 million yuan, the average donation for privatized SOEs is approximately 1.26 million yuan. Model 2 thus supports Hypothesis 1.

Model 3 tests Hypothesis 2a. The coefficient of the dummy variable ("1" for privatized SOEs with layoffs) is positive, as expected, but not significant. In a post hoc test, the mean difference between the two types of privatized SOEs is significant ($t = 2.726$, $df = 675$), with privatized SOEs with layoffs having higher charitable contributions. This finding suggests that Model 3 might be biased. It is plausible that whether to lay off employees in the process of privatization might not be entirely random. To correct for this potential bias, we used the propensity score matching (PSM) method to construct balanced control and treatment groups with privatization with layoffs as the treatment (Rosenbaum & Rubin, 1983). Indeed, before matching, the two groups of firms differ significantly. Through matching based on different matching ratios (i.e., 1:1, 1:2, 1:3, 1:4, and 1:5), firms with and without layoffs are largely comparable. We used the matched samples to retest Hypothesis 2a, as reported in Table 3. Models 9–13 show consistent evidence that firms with layoffs make more charitable contributions than those without layoffs. The effect of privatization is similar when using the OLS model (e.g., for Model 9, $p = 0.010$) or dropping 15 nonsignificant controls (e.g., for Model 9, $p = 0.016$). Despite the robustness of our result, the small size of the matched samples may render our estimation underpowered to have a greater chance of producing a large effect size.[4] Table 3 thus provides mostly suggestive evidence for Hypothesis 2a. To assess the effect size, consider Model 9. All else being equal, on average, privatized SOEs with layoffs made approximately 197% more charitable contributions than those without layoffs.

[3] The calculation is as follows. $\text{Log(Y1)} = 0.23$ with privatization = 1, $\text{Log(Y0)} = 0$ with privatization = 0, $\text{Log(Y1)} - \text{Log(Y0)} = \text{Log(Y1/Y0)} = 0.23$, $\text{Y1/Y0} = \text{Exp}(0.23)$, $[(\text{Y1} - \text{Y0}) / \text{Y0}]\% = [(1.258 - 1) / 1]\% = 25.8\%$.

[4] To assess this issue, we conducted power analyses using the user-developed "powerreg" command in STATA for multivariate linear regressions. Because powerreg needs r^2, we reran our estimation using OLS models. We conducted the power analysis for all matched samples but for space considerations reported only the results based on the smallest matched sample in Model 9. Privatization explains 8% variance in donations, representing its estimated effect size. The true effect size of privatization, while unknown, is likely to be smaller than its estimated effect size if underpowering is an issue. We thus estimate the required sample size by setting the effect size of privatization equal to 8%, 7%, 6%, 5%, and 4%. We also set power at the conventional threshold of 0.8 and alpha at 0.05. The full model has 25 variables (i.e., seven industry dummies plus 18 other controls). The required sample sizes for 8%, 7%, 6%, 5%, and 4% are 31, 32, 34, 39, and 47, respectively. Even when we set the true effect size of privatization to be just half of its estimated effect size, the required sample size is only larger than the matched sample in Model 9 by three observations. These analyses show that our results in Table 3 are at least suggestive of the effect of privatization with layoffs.

TABLE 1
Descriptive Statistics and Correlation Matrix[a]

		Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11
1	Charitable contributions	11	2.09											
2	Privatization	0.22	0.42	0.13										
3	Privatization with layoffs[b]	0.96	0.19	0.1	.									
4	Involvement in privatization[b]	0.19	0.39	0	.	0.1								
5	Owner SOE tenure[b]	23.54	7.93	0.04	.	0.01	0.13							
6	Province unemployment rate	3.08	1.06	−0.21	0.08	0.02	−0.09	0.17						
7	Province Confucian influence (*jinshi*)	0.89	0.48	−0.02	0	−0.05	0.02	−0.03	−0.1					
8	Province Confucian influence (*weike*)	0.03	0.03	0.05	0.1	−0.01	0.11	0.01	−0.09	0.56				
9	Firm age	8.1	4.59	0.33	−0.1	0.05	−0.07	−0.35	−0.58	0.02	0.06			
10	Firm profitability	0.38	1.44	0.09	−0.03	0.02	0.01	−0.05	0	0.01	0.01	0.02		
11	Firm size	4.94	1.64	0.42	0.23	0.06	0.01	0.13	0.05	−0.04	−0.01	−0.05	−0.04	
12	Government ownership	0.19	3.07	0.01	0.07	0.02	−0.03	0.04	0	0	0.03	0	−0.01	0.02
13	Firm location (North or South)	0.31	0.46	−0.02	−0.06	0.03	−0.08	0.01	−0.09	0.06	−0.51	0.05	0.01	−0.02
14	Owner CEO	0.92	0.27	−0.01	0.02	0.03	−0.03	−0.03	−0.01	0.01	0.02	0.01	−0.01	−0.01
15	Owner gender	0.88	0.33	0.08	0.08	−0.03	0.03	0.07	−0.01	−0.04	0.02	0.03	0.02	0.08
16	Owner age	45.59	8.03	0.18	0.21	0.04	0.11	0.89	−0.1	−0.03	0.03	0.22	0	0.09
17	Owner education	3.28	1.13	−0.05	0.02	−0.06	0.21	−0.04	−0.05	−0.01	−0.03	−0.03	−0.04	−0.05
18	Owner income	2.33	1.15	0.45	0.01	0.09	−0.05	−0.04	−0.14	0.07	0.14	0.15	0.06	0.27
19	Owner economic status	6.01	1.72	0.34	0.04	0.06	0.04	−0.05	−0.09	0.02	0.07	0.14	0.04	0.22
20	Owner social status	6.03	1.77	0.34	0.05	−0.01	0.02	0.01	−0.09	0.01	0.05	0.16	0.03	0.19
21	Ascribed political ties	0.15	0.36	0.04	0.07	0	−0.01	−0.01	−0.01	−0.01	−0.06	−0.06	−0.01	0.05
22	Achieved political ties	0.21	0.41	0.38	0.04	−0.01	−0.03	0.07	−0.07	−0.08	−0.16	0.17	0.04	0.18
23	Owner CCP member	0.4	0.49	0.1	0.31	−0.04	0.15	0.17	0.03	0.03	0.07	0	0.01	0.16
24	GDP per capita$_{t-1}$	9.71	7.29	−0.17	0.07	0	0.02	0.27	0.21	0.11	0.35	−0.51	0.01	−0.01

		12	13	14	15	16	17	18	19	20	21	22	23	24
13	Firm location (North or South)	−0.01												
14	Owner CEO	0	0.01											
15	Owner gender	0.02	−0.05	0.04										
16	Owner age	0.05	0.02	−0.01	0.08									
17	Owner education	0.01	0	0.05	−0.02	0.02								
18	Owner income	0	−0.11	−0.01	0.06	−0.01	−0.05							
19	Owner economic status	−0.03	−0.02	0.02	0.06	0.06	−0.03	0.33						
20	Owner social status	0	−0.01	0.04	0.03	0.09	−0.03	0.26	0.74					
21	Ascribed political ties	0	0.04	0	0.01	0.08	0.03	−0.02	−0.03	−0.01				
22	Achieved political ties	−0.02	0.09	−0.05	0.01	0.09	−0.08	0.19	0.15	0.19	0.07			
23	Owner CCP member	0.03	0.01	0	0.1	0.24	0.01	0	0.05	0.07	0.17	−0.04		
24	GDP per capita$_{t-1}$	0.03	−0.08	−0.02	−0.04	−0.07	−0.03	−0.01	−0.11	−0.13	0	−0.13	−0.02	

Notes: [a] The absolute values of correlation coefficients greater than 0.03 are statistically significant at $p < 0.05$. $N = 3{,}071$. [b] Measures are only for the subsample of privatized SOEs.

Model 4 tests Hypothesis 2b. The interaction of privatization with the provincial unemployment rate is positive and significant, as expected. All else being equal, compared to firms founded as private, privatized SOEs made approximately 57% more charitable contributions in provinces with a low unemployment rate (i.e., 2.02, 1 standard deviation below the mean) but approximately 100% more charitable contributions in provinces with a high unemployment rate (i.e., 4.14, 1 standard deviation above the mean), representing a net difference of approximately 43%. Model 4 supports Hypothesis 2b.

Model 5 tests Hypothesis 3a by comparing two groups of privatized SOEs: (a) owner involved in privatization and (b) owner not involved in privatization. The coefficient of owner involvement in privatization is positive and significant, as expected. All else being equal, on average, privatized SOEs with their owners involved in privatization made approximately 26% more charitable contributions than privatized SOEs with their owners not involved in privatization. Model 5 supports Hypothesis 3a.

Models 6 and 7 test Hypothesis 3b. Models 6 and 7 show that both measures of Confucian influence have significant, positive moderating effects, supporting

TABLE 2
Multilevel Regression Models of Privatization and Firm Charitable Contributions

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Privatization		0.230†		0.216		0.232†	0.205†	
		(0.111)		(0.121)		(0.103)	(0.080)	
Privatization with layoffs			0.283					
			(0.432)					
Privatization × Province unemployment rate				0.115†				
				(0.053)				
Involvement in privatization					0.235†			
					(0.100)			
Privatization × Province Confucian influence						0.348*	6.991*	
						(0.087)	(2.513)	
Owner SOE tenure								0.020*
								(0.006)
Province unemployment rate	−0.041	−0.043	0.052	−0.044	0.052	−0.043	−0.037	0.054
	(0.039)	(0.039)	(0.075)	(0.040)	(0.074)	(0.039)	(0.039)	(0.076)
Province Confucian influence	−0.078	−0.077	0.225	−0.077	0.218	−0.066	1.906	0.203
	(0.118)	(0.118)	(0.135)	(0.117)	(0.129)	(0.117)	(2.244)	(0.132)
Firm age	0.093*	0.096*	0.093*	0.095*	0.092*	0.095*	0.093*	0.116*
	(0.011)	(0.010)	(0.023)	(0.010)	(0.023)	(0.010)	(0.012)	(0.019)
Firm profitability	0.093*	0.094*	0.150*	0.094*	0.149*	0.095*	0.094*	0.150*
	(0.019)	(0.019)	(0.023)	(0.019)	(0.023)	(0.020)	(0.020)	(0.023)
Firm size	0.333*	0.323*	0.371*	0.322*	0.373*	0.322*	0.325*	0.381*
	(0.019)	(0.020)	(0.044)	(0.020)	(0.044)	(0.020)	(0.020)	(0.041)
Government ownership	0.005	0.003	−0.001	0.004	−0.000	0.003	0.002	−0.000
	(0.005)	(0.005)	(0.007)	(0.006)	(0.007)	(0.006)	(0.006)	(0.007)
Firm location (North or South)	−0.041	−0.040	−0.204	−0.042	−0.197	−0.039	−0.024	−0.218
	(0.124)	(0.124)	(0.232)	(0.123)	(0.232)	(0.122)	(0.135)	(0.235)
Owner CEO	0.011	0.006	0.196	0.006	0.221	−0.002	−0.002	0.112
	(0.127)	(0.129)	(0.273)	(0.129)	(0.274)	(0.129)	(0.128)	(0.204)
Owner gender	0.044	0.036	0.463*	0.034	0.461*	0.027	0.030	0.377†
	(0.096)	(0.099)	(0.176)	(0.098)	(0.172)	(0.098)	(0.099)	(0.191)
Owner age	0.015*	0.014*	0.023*	0.013*	0.021*	0.013*	0.013*	
	(0.004)	(0.004)	(0.007)	(0.004)	(0.007)	(0.004)	(0.004)	
Owner education	0.017	0.016	0.035	0.016	0.029	0.016	0.015	0.029
	(0.025)	(0.024)	(0.036)	(0.024)	(0.037)	(0.024)	(0.025)	(0.036)
Owner income	0.423*	0.426*	0.395*	0.425*	0.397*	0.427*	0.425*	0.381*
	(0.023)	(0.023)	(0.039)	(0.023)	(0.038)	(0.022)	(0.022)	(0.037)
Owner economic status	0.073*	0.073*	0.033	0.075*	0.035	0.075*	0.073*	0.046
	(0.022)	(0.022)	(0.035)	(0.022)	(0.035)	(0.022)	(0.021)	(0.032)
Owner social status	0.094*	0.093*	0.064	0.093*	0.060	0.093*	0.094*	0.055
	(0.021)	(0.021)	(0.052)	(0.021)	(0.049)	(0.020)	(0.020)	(0.050)
Ascribed political ties	0.180	0.177	0.340†	0.178	0.345†	0.170	0.173	0.342†
	(0.118)	(0.115)	(0.159)	(0.115)	(0.165)	(0.115)	(0.115)	(0.163)
Achieved political ties	1.110*	1.098*	0.918*	1.097*	0.911*	1.103*	1.118*	0.912*
	(0.055)	(0.058)	(0.161)	(0.059)	(0.160)	(0.058)	(0.057)	(0.161)
Owner CCP member	0.116	0.073	0.027	0.075	0.003	0.074	0.069	0.011
	(0.064)	(0.063)	(0.116)	(0.062)	(0.115)	(0.064)	(0.063)	(0.111)
GDP per capita	−0.002	−0.002	−0.010	−0.002	−0.010	−0.002	−0.004	−0.008
	(0.004)	(0.004)	(0.011)	(0.004)	(0.011)	(0.004)	(0.006)	(0.011)
Year-fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	5.700*	5.814*	4.293*	5.827*	4.281*	5.824*	5.739*	4.898*
	(0.333)	(0.339)	(0.475)	(0.346)	(0.495)	(0.332)	(0.365)	(0.508)
N	3,071	3,071	677	3,071	677	3,071	3,071	677
Log pseudo-likelihood	−5620.253	−5615.357	−1165.143	−5613.842	−1164.515	−5612.399	−5611.280	−1158.620

Notes: Two-tailed test for all variables. Robust standard errors in parentheses.
$^{\dagger}p < 0.05$
$^{*}p < 0.01$

TABLE 3
Privatization With vs. Without Layoffs and Propensity Score Matching (PSM) Test

Variables	(9) 1:1 Match	(10) 1:2 Match	(11) 1:3 Match	(12) 1:4 Match	(13) 1:5 Match
Privatization with layoffs	1.088*	0.764†	0.698†	0.705†	0.696†
	(0.248)	(0.349)	(0.343)	(0.347)	(0.318)
Province unemployment rate	0.015	−0.669*	−0.476*	−0.328†	−0.382*
	(0.177)	(0.162)	(0.139)	(0.148)	(0.129)
Province Confucian influence	−0.599	−0.419	−0.003	−0.088	−0.084
	(0.427)	(0.860)	(0.718)	(0.553)	(0.495)
Firm age	0.143*	−0.061	−0.074	−0.042	−0.021
	(0.053)	(0.056)	(0.070)	(0.064)	(0.061)
Firm profitability	0.243	−0.545	−0.486	−0.142	−0.052
	(0.181)	(0.429)	(0.366)	(0.275)	(0.214)
Firm size	0.351*	0.383*	0.423*	0.454*	0.515*
	(0.062)	(0.068)	(0.076)	(0.063)	(0.052)
Firm location (North or South)	−0.403†	0.233	−0.098	0.038	0.001
	(0.183)	(1.067)	(0.963)	(0.833)	(0.764)
Owner CEO	0.366	0.470†	0.467	0.452	0.158
	(0.592)	(0.205)	(0.267)	(0.232)	(0.294)
Owner gender	0.402	0.248	0.158	0.213	0.274
	(0.244)	(0.271)	(0.274)	(0.345)	(0.357)
Owner age	0.015	0.026†	0.026†	0.022	0.014
	(0.010)	(0.012)	(0.011)	(0.012)	(0.010)
Owner education	0.376*	0.650*	0.645*	0.608*	0.523*
	(0.109)	(0.087)	(0.078)	(0.065)	(0.058)
Owner income	0.183	0.176	0.140	0.113	0.233†
	(0.149)	(0.133)	(0.118)	(0.126)	(0.105)
Owner economic status	−0.026	−0.072	−0.070	−0.091	−0.073
	(0.137)	(0.117)	(0.103)	(0.107)	(0.078)
Owner social status	0.082	0.046	0.061	0.068	0.067
	(0.097)	(0.150)	(0.133)	(0.116)	(0.095)
Ascribed political ties	0.226	−0.083	0.011	−0.069	−0.274
	(0.212)	(0.276)	(0.257)	(0.243)	(0.219)
Achieved political ties	0.890*	0.427	0.518	0.938*	0.969*
	(0.210)	(0.304)	(0.280)	(0.241)	(0.193)
Owner CCP member	0.031	−0.212	−0.283	−0.349	−0.338
	(0.213)	(0.218)	(0.202)	(0.258)	(0.191)
GDP per capita	0.053*	−0.087	−0.136†	−0.112†	−0.077
	(0.016)	(0.050)	(0.066)	(0.056)	(0.045)
Industry-fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	8.397*	10.575*	9.753*	8.185*	8.224*
	(1.470)	(1.845)	(1.382)	(0.982)	(0.906)
N	44	65	74	85	96
Log pseudo-likelihood	−38.099	−85.467	−98.064	−111.303	−124.661

Notes: Two-tailed test for all variables. Robust standard errors in parentheses. Following the convention, we used a logit model, the nearest-neighbor matching with replacement, and a caliper of 0.25 standard deviation (0.023) to create matched samples. Government ownership and the year dummy were omitted in the regressions due to the lack of variance.

† $p < 0.05$

* $p < 0.01$

Hypothesis 3b. In Model 6, all else being equal, compared to firms founded as private, privatized SOEs on average made 45% more charitable contributions in a province with a low level of *jinshi* (i.e., 0.4, 1 standard deviation below the mean) but approximately 103% more charitable contributions in a province with a high level of *jinshi* (i.e., 1.4, 1 standard deviation above the mean). In Model 7, compared to firms founded as private, privatized SOEs on average made approximately 22% more charitable contributions in a province with a low level of *weike* (i.e., 0, minimum) but approximately 87% more charitable contributions in a province with a high level of *weike* (i.e., 0.06, 1 standard deviation above the mean).

Model 8 tests Hypothesis 4 using 18 as the age of leaders of privatized firms to start work in their SOEs. This test is a subsample test based on privatized SOEs. The coefficient of owner SOE tenure is highly significant with the expected positive sign. All else being equal, for a privatized SOE, an increase of 10 years in owner SOE tenure increases corporate philanthropy by 20% on average. Model 8 supports Hypothesis 4.

Supplementary analyses. Two types of alternative explanations can challenge the guilt-based interpretation of the observed effect of privatization: (a) common third factors and (b) alternative causal mechanisms. Common third factors should simultaneously affect privatization and corporate philanthropy. As described above, because the national policy was to privatize smaller SOEs, experiencing privatization was affected only by (a) whether a firm was an SOE and (b) how large an SOE was. Using registered assets as a valid measure of firm size, we directly ruled out firm size as a common third factor by including it in all our models in Table 2. Firm characteristics common to SOEs can function as common third factors provided that they can also affect corporate philanthropy. If firm characteristics common to SOEs do affect corporate philanthropy, they should cause differences in philanthropy between SOEs and firms founded as private. Prior studies have tested this hypothesis using publicly listed firms in China. Given that few privatized SOEs went public in China, listed private firms are almost exclusively founded as private, allowing prior studies to test differences in philanthropy between SOEs and firms founded as private by simply including a dummy variable. Prior studies did not find any significant difference (Luo, Zhang, & Marquis, 2016; Marquis & Qian, 2014), suggesting that common SOE characteristics could not serve as common third factors in our estimation. Taking one more cautious step, we used the PSM method to construct control and treatment groups to ensure their similarity in everything except whether they experienced privatization (Rosenbaum & Rubin, 1983). Using different matching ratios (i.e., 1:1, 1:2, 1:3, 1:4, and 1:5) produced results largely consistent with those in Table 2, as illustrated by the results based on the 1:2 matching ratio in Table 4 (all results are available upon request). The PSM test helps further rule out the confounding of common third variables.

While excluding common third factors helps establish the causal effect of privatization, it does not ensure that privatization affects corporate philanthropy through the posited guilt-based mechanism due to at least three possible alternative mechanisms. First, by causing layoffs, privatization might create public pressure for privatized SOEs to engage in philanthropy. Because the privatization was a top–down policy to reform struggling SOEs, public pressure was likely to be largely removed, as confirmed by our field research in Study 2. Moreover, public pressure for corporate philanthropy was likely to be stronger when: (a) fewer SOEs were privatized in a province (i.e., singled out for criticism), (b) more corporate philanthropy was undertaken in a firm's industry (i.e., peer pressure), or (c) a firm was in a "sinful" industry (e.g., polluting industries). Our further analysis of the survey data did not support these derivations of the public pressure mechanism (results are available upon request).

Second, in Chinese society, two cultural features, *renqing* and *mianzi* (i.e., face), can provide two context-specific alternative explanations. *Renqing* refers to "a resource that one can present to another person as a gift in the social exchange process and a set of social norms that one should follow to get along well with other people" (Wang, 2007: 82). If privatization undermined their social relationships, firm leaders might feel pressure to repair them through corporate philanthropy as part of their social exchange. In China, a highly important relationship that privatization could affect was relationships with local officials because unemployment and other social problems resulting from privatization could affect local officials' political careers. Exchange relationships with officials are more likely to develop when turnover is less frequent because of the expectation of long-term exchanges. Moreover, the *renqing* pressure for firm leaders was likely to be higher when the weak economy in a place made local officials need more help from businesses to solve social problems. To capture these two conditions, we calculated the turnover of provincial governors, provincial party secretaries, and mayors and the average GDP growth in the province of a firm's headquarters location from the year of its registration as private to the year before the survey. We tested the moderation of these two factors on the effect of privatization on charitable contributions but found support for neither of the interactions (results are available upon request). This finding suggests that the observed effect of privatization might not be entirely due to the influence of *renqing*.

Mianzi is "an individual's public image, gained by performing one or more specific social roles that are well recognized by others" (Qian, Abdur Razzaque, &

TABLE 4
Endogeneity and Propensity Score Matching (PSM) Test

Variables	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**	**(19)**	**(20)**
Privatization	0.236†		0.220		0.242†	0.218†	
	(0.112)		(0.118)		(0.101)	(0.091)	
Privatization with layoffs		0.399					
		(0.419)					
Privatization × Province unemployment rate			0.121†				
			(0.057)				
Involvement in privatization				0.279†			
				(0.126)			
Privatization × Province Confucian influence					0.365*	5.706†	
					(0.131)	(2.803)	
Owner SOE tenure							0.013*
							(0.005)
Province unemployment rate	−0.002	0.084	−0.036	0.084	0.001	0.007	0.083
	(0.045)	(0.072)	(0.051)	(0.072)	(0.045)	(0.045)	(0.073)
Province Confucian influence	0.014	0.244†	0.014	0.231†	−0.056	2.098	0.215†
	(0.123)	(0.118)	(0.121)	(0.114)	(0.144)	(2.552)	(0.117)
Firm age	0.103*	0.092*	0.101*	0.091*	0.101*	0.099*	0.110*
	(0.014)	(0.024)	(0.014)	(0.024)	(0.013)	(0.014)	(0.021)
Firm profitability	0.115*	0.151*	0.116*	0.151*	0.117*	0.116*	0.151*
	(0.027)	(0.020)	(0.027)	(0.020)	(0.028)	(0.028)	(0.021)
Firm size	0.392*	0.388*	0.390*	0.390*	0.387*	0.393*	0.402*
	(0.029)	(0.051)	(0.029)	(0.052)	(0.029)	(0.030)	(0.047)
Government ownership	0.018	0.080*	0.021	0.077*	0.017	0.016	0.079*
	(0.022)	(0.012)	(0.022)	(0.012)	(0.022)	(0.022)	(0.010)
Firm location (North or South)	−0.033	−0.155	−0.034	−0.153	−0.028	0.049	−0.176
	(0.153)	(0.247)	(0.154)	(0.251)	(0.150)	(0.173)	(0.252)
Owner CEO	0.066	0.218	0.070	0.254	0.053	0.041	0.125
	(0.220)	(0.306)	(0.221)	(0.304)	(0.219)	(0.218)	(0.225)
Owner gender	0.154	0.341†	0.152	0.338†	0.145	0.135	0.243
	(0.141)	(0.169)	(0.139)	(0.170)	(0.139)	(0.140)	(0.173)
Owner age	0.008	0.017†	0.008	0.015†	0.008	0.008	
	(0.005)	(0.007)	(0.005)	(0.007)	(0.005)	(0.005)	
Owner education	0.068	0.077†	0.068	0.067	0.071	0.068	0.068†
	(0.038)	(0.038)	(0.037)	(0.039)	(0.037)	(0.038)	(0.038)
Owner income	0.391*	0.417*	0.390*	0.419*	0.395*	0.392*	0.402*
	(0.032)	(0.038)	(0.032)	(0.037)	(0.031)	(0.032)	(0.036)
Owner economic status	0.038†	0.021	0.040†	0.024	0.040†	0.039†	0.037
	(0.023)	(0.036)	(0.023)	(0.036)	(0.023)	(0.023)	(0.031)
Owner social status	0.101*	0.064	0.099*	0.058	0.100*	0.101*	0.051
	(0.027)	(0.058)	(0.027)	(0.055)	(0.027)	(0.026)	(0.055)
Ascribed political ties	0.213	0.285	0.213	0.295	0.198	0.202	0.280†
	(0.124)	(0.159)	(0.122)	(0.163)	(0.121)	(0.124)	(0.158)
Achieved political ties	1.080*	1.049*	1.078*	1.040*	1.088*	1.099*	1.040*
	(0.099)	(0.123)	(0.099)	(0.124)	(0.099)	(0.096)	(0.125)
Owner CCP member	0.078	0.070	0.080	0.034	0.078	0.071	0.049
	(0.071)	(0.112)	(0.070)	(0.110)	(0.072)	(0.071)	(0.106)
GDP per capita	0.002	−0.004	0.003	−0.005	0.002	−0.001	−0.002
	(0.006)	(0.012)	(0.006)	(0.013)	(0.005)	(0.007)	(0.012)
Year-fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	4.956*	4.094*	5.075*	4.114*	5.051*	5.002*	4.632*
	(0.396)	(0.492)	(0.395)	(0.502)	(0.388)	(0.387)	(0.437)
N	1,331	581	1,331	581	1,331	1,331	581
Log pseudo-likelihood	−2335.423	−975.557	−2334.283	−975.016	−2333.111	−2333.141	−968.785

Notes: Two-tailed test for all variables. Robust standard errors in parentheses. Following the convention, we used a logit model, the nearest-neighbor matching with replacement, and a caliper of 0.25 standard deviation (0.047) to construct the matched sample.

† $p < 0.05$

* $p < 0.01$

Ah Keng, 2007: 215). Laying off employees might cause firm leaders to feel the loss of *mianzi* if it was perceived as indicating their incompetence in their role. Losing *mianzi* might motivate firm leaders to regain *mianzi* via corporate philanthropy. The loss of *mianzi* could have a stronger influence on firm leaders, at least under two conditions. First, because *mianzi* stems from individuals' concerns with others' perceptions, they are more likely to attune themselves to others' perceptions when they know each other directly or indirectly. Because individuals acquire cultural values like *mianzi* through early socialization, individuals growing up in rural and urban areas might differ in the cultural value they place on *mianzi*. Because closely knit social networks are more likely to develop in small rural communities than large urban communities, the pressure for *mianzi* is likely to be stronger in rural than urban communities. We coded whether firm leaders grew up in the countryside or in the city as a moderator. Second, individuals are likely to feel greater pressure to maintain *mianzi* when they must face those whose perceptions matter. In our case, firm leaders were likely to place importance on the perceptions of those who suffered from or knew about layoffs. One condition that allows us to capture this subtlety is the separation of headquarters and operation locations because firm leaders mostly work at their headquarters. We tested the moderation of these two factors on the effect of privatization on charitable contributions but found no support for either of them (results are available upon request). Thus, *mianzi* might not fully account for the observed effect of privatization on charitable contributions.

STUDY 2: FIELD STUDY

Sample and Data

We followed prior studies to secure interviews with firm leaders through social ties (e.g., Uzzi & Lancaster, 2004). We selected each additional informant from a new industry or a new province/autonomous city whenever possible to increase the representativeness of our sample. We decided to stop at a sample size needed to gather sufficient information and reach a rather high degree of convergence in responses (Uzzi & Lancaster, 2004). The final sample included 25 firm leaders from 18 industries and 12 provinces. Table 5 provides details about the interviewees. They did not know the purpose of our research other than that we wanted to understand the privatization of SOEs. The interviews were conducted by at least two interviewers, either face to face (4 interviews) or via phone (21 interviews) (see Appendix A for the interview questions). We recorded interviews when permitted and took detailed notes otherwise.

Data Analysis

Following research using field studies for a similar purpose (Uzzi & Lancaster, 2004), the data analysis was guided by our proposed theory. The content analysis involved three tasks: (1) identifying constructs and their relationships from the transcript for each interview, (2) organizing qualitative materials based on these constructs, and (3) tabulating responses across informants. We thoroughly read each transcript to develop a holistic understanding of each informant's responses, decomposed each informant's responses into singular theme categories, grouped singular theme categories, organized singular theme categories into higher level constructs relevant to our concerns, and tabulated constructs for each informant. Three authors conducted the analysis separately using the same rules. Intercoder consistency was high because the coding was mostly straightforward.

Results

The second panel of Table 5 summarizes the results of our analysis, and Table 6 provides illustrative evidence. In a nutshell, we found overwhelmingly supportive evidence for our theory. Our theory suggests the following: privatization → layoffs → harm → guilt → corporate philanthropy. First, our field study showed that the reform of SOEs led to massive layoffs in China. Twenty-four of 25 informants confirmed that their SOEs underwent significant downsizing. In the case of the outlier (Informant #20),[5] his or her enterprise had just happened to simultaneously expand its operation at the time due to soaring demand for electricity and thereby was able to reallocate its laid-off workers to newly formed subsidiaries in remote areas. Table 6 shows four examples (i.e., #1 to #4) of employment ranging from 400 to 10,000. Smaller enterprises lost the majority of their workforce (i.e., 83% for #1, 75% for #2, and 66% for #3). The percentage of laid-off workers was smaller for larger enterprises, but the absolute numbers of workers were large (e.g.,

[5] We refer to an informant with the combination of "Informant" and a number and an example quote with just a number.

TABLE 5
Sample Characteristics and Construct Coding Summary

	Sample Description						Construct Coding		
ID	Industry	Province	Pre-Privatization Position	Post-Privatization Position	Interview Time (Minutes)	Layoff	Harm	Guilt	Corporate Philanthropy
1	Airplane component	Gansu	Senior manager	Division CEO	42	Yes	Yes	Yes	No
2	Oil/gas drilling equipment	Shanxi	Division CEO	Division CEO	36	Yes	Yes	Yes	Yes
3	Industrial materials	Inner Mongolia	CEO	CEO	60	Yes	Yes	Yes	Yes
4	Construction	Shanxi	Senior manager	CEO/chairman	63	Yes	Yes	Yes	Yes
5	Steel	Beijing	Senior manager	Division CEO	46	Yes	Yes	Yes	Yes
6	Automobile	Shanxi	Executive	Executive	99	Yes	Yes	Yes	Yes
7	Agricultural products	Shanghai	Vice president	CEO	112	Yes	Yes	Yes	Yes
8	Oil and chemicals	Hubei	Senior manager	Executive	27	Yes	Yes	Yes	Yes
9	Coal mining	Sichuan	CEO	CEO	47	Yes	Yes	Yes	Yes
10	Automobile	Beijing	Division CEO	Corporate executive	56	Yes	Yes	Yes	Yes
11	Chemicals	Jiangsu	CEO	CEO	81	Yes	Yes	Yes	Yes
12	International trade	Beijing	Executive	Executive	66	Yes	Yes	No	No
13	Textile	Shandong	Executive	Executive	38	Yes	Yes	Yes	Yes
14	Oxygen manufacturing	Shandong	CEO	CEO	50	Yes	Yes	Yes	Yes
15	International trade	Beijing	CEO	CEO	63	Yes	Yes	Yes	No
16	Industrial mechanics	Hebei	Executive	Executive	39	Yes	Yes	Yes	No
17	Textile	Jiangsu	CEO	CEO	56	Yes	Yes	No	No
18	Paper	Shanxi	Senior manager	Executive	61	Yes	Yes	Yes	Yes
19	Coal mining	Shanxi	Executive	CEO	46	Yes	Yes	Yes	Yes
20	Electricity equipment	Shanghai	Senior manager	Executive	42	No	No	No	No
21	Coal mining	Shanxi	CEO	Executive	37	Yes	Yes	Yes	Yes
22	Paper	Henan	Executive	CEO	88	Yes	Yes	Yes	Yes
23	Hotel & real estate	Beijing	Executive	Division CEO	58	Yes	Yes	Yes	Yes
24	Agricultural products	Liaoning	CEO	CEO	21	Yes	No	No	No
25	Shoe manufacturing	Shandong	CEO	CEO	34	Yes	Yes	Yes	Yes
Total					1,368	24/25	23/25	21/25	18/25

approximately 1,500 to 2,000 for #4). These micro numbers are in line with the statistics at the macro level cited earlier.

Second, all of the informants but two (Informant #20 noted above and Informant #24) confirmed that their laid-off SOE workers experienced great distress. Informant #24 explained that their laid-off workers did not experience more difficulties than before because their enterprise was already in a bad situation, and the workers were just happy to be released with a decent amount of compensation. In Table 6, Informant #6 in example 5 described how bad the life of laid-off SOE workers could be in a place greatly affected by the reform of SOEs. Informants in examples 6–8 alluded to the main causes of difficulties experienced by laid-off SOE: they could not find a new job due to their highly specialized skills developed in SOEs or their complete lack of skills, or they suffered a drastic drop in social status (losing face) after being let go from highly coveted SOEs previously. Many of the informants recalled the difficulties experienced by their laid-off workers in great detail. For example, Informants #4 and #18 recollected seeing former workers collecting rotten vegetables that grocers had thrown away. Informant #5 remembered seeing some of their laid-off workers providing bicycle repair services on the roadside and some operating a breakfast stand on a freezing winter morning. Being able to recall such details many years later suggests two things. First, these firm leaders must have personally observed laid-off workers' difficult lives and were likely to wholeheartedly empathize with their suffering. Second, these workers' situations must have been seriously difficult to have left such a strong impression on these firm leaders.

Third, observing firsthand the suffering of laid-off SOE workers also evoked feelings of guilt or *nei jiu*. Our field study also helps elucidate the nature of guilt. Our informants mostly emphasized that they

TABLE 6
Illustrative Evidence of Constructs

Construct	Evidence
Layoff	1. "We had over 400 employees before the privatization but had to cut around 300 of them as a result of the privatization." (Informant #4)
	2. "Our enterprise had over 1,200 employees … after restructuring, for an enterprise with over 1,000 employees, there were only 70–80 left." (Informant #23)
	3. "Our enterprise had over 3,000 employees. More than half were laid off via early retirement or buyout. There were only around 1,000 left." (Informant #3)
	4. "We had over 10,000 employees in the 1990s. The privatization reduced the total size of employees by 15% to 20% (1,500–2,000)." (Informant #11)
Harm	5. "The living conditions for those laid off were very bad. How bad? [Laid-off] workers had nothing to eat at home. Who reported this? Farmers at least have a piece of land. What did [laid-off] workers have? … They were willing to do anything but still could not make ends meet. This was how bad it was for them!" (Informant #6)
	6. "Streamline workers specialized in only a small part of a final product and did not develop general skills. It was very difficult for them to find a new job after being laid off, so the situation for most of them was difficult." (Informant #10)
	7. "Life for some laid-off workers was very difficult. Jobs in international trade were highly admirable office jobs. When laid off, they not only suffered from a drastic drop in their incomes but also a great loss in their social status. Both were difficult for them." (Informant #12)
	8. "Leaving [being laid off] the SOE enterprise was like falling from heaven to hell. You were the owner of the enterprise with a lot of rights [e.g., to be elected]. However, you are nobody now; you can be bossed around even by peasants [many laid-off workers joined township and village enterprises] and have to obey their orders even if they are wrong and you are senior engineers." (Informant #16)
Guilt	9. "I really struggled and felt guilty when I had to push workers out [due to the reform]. I felt indebted to them. This feeling was prevalent among firm leaders, but we had no choice and had to do this without other solutions." (Informant #1)
	10. "We should feel guilty. It shows that a firm leader is conscientious or at least able to feel difficulties experienced by laid-off workers and speak up for them. However, some don't [feel guilty]. They benefitted from the privatization by working behind the scenes. They won't feel guilty." (Informant #18)
	11. "As I do not assume any leadership role now [due to retirement], I can only feel sympathetic for them. Other former SOE leaders I know also share this feeling. Honestly, one reason for me to agree to be interviewed is to help raise societal awareness of laid-off SOE workers as a social group and to see if the government can compensate them monetarily. As the whole society has been developing so well, we should not entirely abandon and forget them." (Informant #19)
	12. "To be honest with you, we, as firm leaders, indeed feel guilty towards laid-off workers. They worked so hard in the coal mine for several decades. But, in the end, they were let go coldheartedly without being properly placed into a new job. I indeed feel bad." (Informant #21)
Corporate philanthropy	13. "We, as firm leaders, do not always think similarly due to difference in our education, experience, and understanding of society. In reality, [out of firm leaders I know], most feel guilty toward and sympathetic for them [laid-off workers], as one can imagine. As we feel guilty toward them, we try to find ways to make restitution to them in order to comfort ourselves psychologically and alleviate our own emotional distress." (Informant #2)
	14. "Factory leaders like us who climbed up from the lower level wholeheartedly felt guilty and indebted to them [laid-off workers]. Later, when the conditions of our factory improved, factory leaders held a special meeting and decided to allocate some money to help them improve their living conditions. The allocated money, while not enough to entirely change their situations, was all we as factory leaders could do within our capacity. I myself also gave them some life necessities when I visited their homes on holidays. These life necessities, however limited, expressed how I felt toward them." (Informant #5)
	15. "[Our firm] has paid more attention to and invested more in corporate philanthropy as a result of laying off our workers during the privatization. One important aspect of our corporate philanthropy is to increase employee benefits, for example, by installing air conditioners for employees … Another important aspect of our corporate philanthropy is to provide help [e.g., donating, volunteering] within our capability when catastrophic events occur locally and nationally." (Informant #9)

TABLE 6
(Continued)

Construct	Evidence
	16. "Our firm has been doing relatively well since the privatization. We have hired back some laid-off workers for janitorial, security, and other service work. The privatization led me to set some principles for our CSR. First, we have to pay taxes according to tax laws and regulations. Second, we have to improve employee benefits; employee benefits in my firm are much higher now than before [quintupled than before and higher than the industry average]. Third, we have to give back to society by helping solve issues related to education, eldercare, and poverty. Doing a certain amount of philanthropic work as allowed by our capability can bring some peace of mind." (Informant #14)

Notes: Three rules guided the selection of illustrative evidence due to space considerations. First, illustrative evidence was selected from different informants on the basis of its representativeness. Second, illustrative evidence was selected on the basis of its illustrativeness. Third, different quotes for the same construct were selected to illustrate different aspects of the construct.

were simply following the policy of the central government when reforming and privatizing their SOEs, as best said by Informant #2: "Their life was very difficult, so I was very sympathetic for them. But this was the policy—not up to me." As a result, few informants took the reform of their SOEs as an opportunity to question their own moral characters or feel ashamed of themselves, as Informant #15 stated: "I did nothing unconscientious and instead did everything for the public interest without seeking to benefit myself." Reflecting on the distinction between shame and guilt (Tangney, 1995), feeling no shame did not necessarily preclude the feeling of guilt that most informants had toward laid-off SOE workers. Twenty-one of the 25 informants said that they experienced a feeling of guilt, as shown in Table 5, and many of them believed that this feeling was rather prevalent among firm leaders, as illustrated in examples 9, 11, and 12 in Table 6. The informants also alluded to various reasons for feeling guilty toward laid-off SOE workers, such as "not leading them well" (Informant #14), "not fighting for more compensation for them" (Informant #23), or "their sacrificing for the reform" (Informant #7). Regardless of these particularities, as Informant #18 emphasized in example 10, these leaders' consciences led them to feel guilty about those harmed in the SOE reform that they carried out, consistent with the interpersonal view of guilt (Tangney, 1995).

Finally, guilt felt toward laid-off SOE workers influenced firm leaders' (and their firms') subsequent engagement in philanthropy, as 18 of 25 informants confirmed. Examples 13–16 in Table 6 illustrate three features of this influence. First, feeling guilt indeed motivated firm leaders to make restitution to express their feelings of guilt (Informant #5) and bring peace of mind (Informants #2 and #4). These stated motivational effects of guilt are highly consistent with extant guilt research (Baumeister et al., 1994; Dahl et al., 2005; Ferguson et al., 1999; Tangney, 1995). Second, restitution was made predominantly as a part of corporate philanthropy rather than as a personal endeavor; only one of 18 informants made restitution through their personal endeavors (Informant #5). The last example in Table 6 best reflects the influence of the SOE reform on corporate philanthropy; that is, the SOE reform has changed how many firm leaders see and undertake corporate philanthropy in general, rather than simply as narrowly defined restitution to those who suffered in the SOE reform. Third, as illustrated by examples 14 and 16) in Table 6, the informants mentioned that one important condition for helping laid-off SOE workers in particular and social causes in general was the improved financial condition of their firms. This condition explains why two of seven informants claimed that no significant corporate philanthropy was undertaken in response to the SOE reform (Informants #1 and #15). Four of these seven informants (i.e., Informants #12, #16, #17, and #24), while feeling guilty and sympathetic, believed that their firm's responsibility was to provide the best products and services, and that helping those who had suffered from the reform was the responsibility of the government. These cases should not be considered as defying the proposed effect of guilt on corporate philanthropy but suggest instead the presence of possible moderators. Overall, our field study provides rich evidence to show that guilt underlies the influence of privatization on corporate philanthropy.

STUDY 3: VIGNETTE EXPERIMENT

Experimental Design and Sample

Vignette experiments enhance experimental realism when used to establish causality (Aguinis &

Bradley, 2014). For our experiment, the treatment and control conditions are privatized SOEs with and without layoffs, respectively, because privatization affects corporate philanthropy by resulting in layoffs. Our subjects were EMBA students who had significant executive experience (at least above the vice president level) and mostly either witnessed or even experienced privatization. We used the combination of a short text and a three-minute video to present a vignette about privatization in China and the distress of laid-off SOE employees to effectively prime subjects (Aguinis & Bradley, 2014) (see Appendix B). A total of 131 subjects participated in the experiment online by following a three-step procedure. First, the subjects went through the vignette and answered attention check questions. Second, the subjects were randomly assigned to imagine themselves as firm leaders involved in privatization either with layoffs (treatment, 73 subjects) or without layoffs (control, 58 subjects). Finally, the subjects answered questions about (a) the guilt they felt toward laid-off SOE employees (adopted from Kugler and Jones, 1992) and (b) their intention to engage in philanthropy after their firm's financial conditions improved (adopted from Smith and McSweeney, 2007). To reduce common method biases, we separated the guilt and philanthropic intention items into two screens and asked subjects to imagine a new condition when answering philanthropic intention questions (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). After excluding 26 subjects who failed to pass the attention check, the final sample included 105 subjects (43 for the control and 62 for the treatment). The excluded subjects were not systematically different from those who remained with regard to five characteristics (i.e., gender, age, SOE experience, Chinese Communist Party membership, and working years) with the highest mean test t value equal to 0.87 ($df = 129$).

Statistical Analysis

With EMBA students from different classes, our data had a nested structure with students at the first level and classes at the second level. We analyzed the data using the multilevel model with robust standard errors to account for the possible nonindependence among EMBA students from the same class. We followed a conventional four-step approach to test the mediating effect of guilt and conducted the Sobel–Goodman mediation test (Baron & Kenny, 1986).

Results

Both guilt and philanthropic intention measures exhibited high reliability (Cronbach's $\alpha = 0.83$ and 0.90, respectively). Table 7 presents the results of the mediation test. In Model 21, privatization ("with layoffs" = 1) had a significant, positive effect on guilt. In Model 22, privatization had a significant, positive effect on philanthropic intention, and in Model 23, the effect of guilt on charitable intention was highly significant and positive. Model 24 shows the mediation effect of guilt, as confirmed by the Sobel–Goodman mediation test (the indirect effect: coefficient = 1.27, $p = 0.05$). We also experimented with philanthropic intention as the mediator between privatization and guilt but did not find support for the mediation effect. Table 7 shows evidence for guilt as a mediating variable between privatization and philanthropic intention.

DISCUSSION AND CONCLUSION

The three studies reported above show that firm leaders' guilt at least partially drives the observed effect of privatization on corporate philanthropy. This finding adds to corporate philanthropy research by establishing guilt as a potent driver of corporate philanthropy. For example, on average, privatized SOEs made approximately 26% more charitable contributions than firms founded as private (Model 2), and privatized SOEs with layoffs made 197% more charitable contributions than privatized SOEs without layoffs (Model 9). Evidence from the three studies suggests that these substantial effects can be at least partly attributed to guilt. Our study explores guilt as a driver of corporate philanthropy by focusing on firms' harm-inflicting actions and leveraging privatization in China as a particular harm-inflicting action. These two features of our study, however, do not imply that for guilt to motivate corporate philanthropy, firms must engage in harm-inflicting actions first, especially not dramatic ones. Instead, firms' harm-inflicting actions are only one of numerous causes of firm leaders' feeling of guilt, as psychology research has shown (Estrada-Hollenbeck & Heatherton, 1998). For example, individuals can experience survivor guilt after downsizing (Brockner et al., 1985), outdoing guilt by simply doing better than others (Modell, 1971), or privilege guilt as members of advantaged groups (Powell et al., 2005), not to mention that guilt can also be trait based (Kugler & Jones, 1992). Thus, for example, one can imagine that a well-off business leader like Bill Gates might experience outdoing

TABLE 7
A Vignette Experiment of Privatization, Guilt, and Charitable Intention

Variables	(21) Guilt	(22) Charitable Intention	(23) Charitable Intention	(24) Charitable Intention
Privatization	1.879*	1.816†		0.755
(with layoffs = 1)	(0.495)	(0.927)		(0.426)
Guilt			0.578*	0.565*
			(0.130)	(0.119)
Gender	2.806*	1.725	0.062	0.141
	(0.174)	(1.252)	(1.618)	(1.499)
Age	−1.068*	−2.941†	−2.383*	−2.337*
	(0.354)	(1.195)	(0.915)	(0.894)
SOE experience	0.790	1.352	0.785*	0.906*
	(1.237)	(1.070)	(0.260)	(0.311)
CCP member	0.509	−0.460	−0.562	−0.747*
	(1.412)	(0.753)	(0.326)	(0.290)
Working years	1.551*	2.350	1.547	1.474
	(0.346)	(1.372)	(1.072)	(1.034)
Constant	19.705*	37.141*	25.930*	26.016*
	(0.554)	(2.547)	(4.392)	(4.332)
N	105	105	105	105
Log pseudo-likelihood	−313.556	−335.362	−323.197	−322.959

Notes: Two-tailed test for all variables. Robust standard errors in parentheses.
† $p < 0.05$
* $p < 0.01$

guilt as a result of "being both wealthy and aware of the suffering of those in extreme poverty" (Estrada-Hollenbeck & Heatherton, 1998: 216). One can also imagine that executives, as members of privileged racial groups (e.g., White), experience privilege guilt when they become aware of the severe disadvantages of underprivileged groups (e.g., Black) and engage in philanthropy as a result (Nelissen & Zeelenberg, 2009). Thus, guilt, as "an integral component of conscience" (Estrada-Hollenbeck & Heatherton, 1998: 215), is a highly potent emotional driver of corporate philanthropy, which warrants attention in and of itself.

Establishing guilt as a driver also has broader implications for the further development of corporate philanthropy research. Believing that the rational view is too limited to explain corporate philanthropy, scholars have started to urge researchers to examine nonfinancial drivers of corporate philanthropy (Wang et al., 2020). Establishing guilt as a highly potent driver of corporate philanthropy helps assess the promise of, and stimulate more research into, this new direction, especially with only a few studies having looked into nonfinancial drivers of corporate philanthropy to date (Chin et al., 2013; Gupta et al., 2017; Muller et al., 2014). Our study does more than add yet another nonfinancial driver of corporate philanthropy; it offers a rare opportunity to shed some light on the importance of nonfinancial drivers when compared to a firm's financial bottom line. The promise of looking into nonfinancial drivers ultimately hinges on the importance of nonfinancial drivers in firms' philanthropical decisions, compared to the financial bottom line. By focusing on the guilt resulting from firms' strategic decisions and actions, our study reveals that pursuing such financially justifiable strategic actions as privatization does not in our case preclude firm leaders from feeling guilty toward those harmed and making restitution via corporate philanthropy. This finding suggests that firm leaders do not only consider the financial bottom line, as the contractarian view of firms suggests (Margolis & Walsh, 2003), but also the moral and humanistic bottom line. In our view, this finding is a testament to the great promise of examining the nonfinancial drivers of corporate philanthropy. Thus, our study could help redirect corporate philanthropy research to move beyond the rational view.

This study also adds to the research on values as drivers of corporate philanthropy (Chin et al., 2013; Gupta et al., 2017) by integrating Confucian cultural values. Confucian culture is widespread and found in many countries in East Asia and other parts of the world. Because the specific values emphasized by Confucianism seem to have implications for corporate philanthropy, many have sought to link Confucianism with corporate philanthropy (Wang & Juslin, 2009). However, capturing Confucian values is challenging when examining firm-level behaviors like corporate philanthropy. We constructed a valid measure by drawing on the *keju* system in China. This measure allowed us to test two possible channels through which Confucianism influences corporate philanthropy. First, as many have argued, firms may make more charitable contributions in places where Confucianism is more influential. However, we did not find consistent support for this direct effect of Confucianism on corporate philanthropy. Second, Confucian values could affect the arousal of guilt when reacting to the harm that firms' strategic decisions and actions inflict on others. Our analysis strongly supports the second channel by testing the moderating effect of Confucianism. Specifically, privatized SOEs located in provinces with a strong Confucian influence made 58% (based on the *jinshi* measure) to 65% (based on the *weike* measure) more charitable contributions than those located in provinces with a weak Confucian influence. These differences attest to the power of Confucian values in driving corporate philanthropy.

The moderating effect of Confucian influence also shows that the two lines of inquiry into the nonfinancial drivers of corporate philanthropy could engage in dialogue to generate new insights. Recent research has introduced values (Aguilera, Rupp, Williams, & Ganapathi, 2007; Chin et al., 2013; Gupta et al., 2017) and emotions (Muller et al., 2014) as drivers of corporate philanthropy. To date, research on these two types of drivers has developed largely in isolation from each other. Nonetheless, values and emotions might intersect with each other in organizational processes. For example, recent institutional research has shown that individuals' experiences of values and norms are often not devoid of emotion (Creed et al., 2014; Sadeh & Zilber, 2019; Voronov & Vince, 2012). Similarly, the interaction between privatization and the Confucian influence (Models 6 and 7) suggests that Confucian values affect how firm leaders see the harm that they inflicted on laid-off employees during the privatization of their SOEs to affect their arousal of guilt. More generally, this finding suggests that an emotional response to a given incident is likely to be shaped by one's own values. For example, one's empathy for those who are suffering may be stronger when one's values teach one to have compassion for others. Considering values and emotions jointly thus promises to yield new insights into the drivers of corporate philanthropy.

More generally, given that corporate philanthropy is a strategic action for firms in today's business environment, this study also contributes to strategic management research on the role of emotions in strategic processes. This line of research builds on the recognition that strategic processes are emotionally charged (Huy, 2012). The extant research has mostly explored emotional issues in strategic processes from two angles. One angle is to examine how emotional intelligence and capabilities allow managers to recognize, manage, and leverage emotions in strategic change processes (Huy, 1999; Sanchez-Burks & Huy, 2009). The other is to examine how the emotional reactions of participants (e.g., middle managers) in strategic change processes affect the implementation of change (Huy, 2011). With prior studies mostly focusing on the role of middle managers in strategic change processes, top managers—as the initiators of strategic actions—have mostly been depicted as emotionless background figures. When the emotions of top managers were occasionally noted, they were simply considered as personal traits (Delgado-García & De La Fuente-Sabaté, 2010; Kisfalvi & Pitcher, 2003). This trait-based view may limit our understanding of top managers' emotions and their strategic consequences since many emotions are aroused. Our study is one of the first to introduce guilt as an aroused emotion into the strategic management research. We show that firm leaders' guilt has a profound effect on firms' philanthropy practice, which is strategically important to firms.

This study also has important practical implications. From the perspective of firms, this study suggests that expressing guilt and the urge to restitute is among the emotional capabilities that managers can develop to enhance their relationships with employees and the public. In general, managers' emotional capabilities are critical for strategic management by expressing or arousing "distinct emotional states, such as authenticity, sympathy, hope, fun, and attachment to achieve specific organizational goals" (Huy, 2005: 3). To concretize our discussion, consider layoffs again. Internally, when firm leaders express feelings of guilt toward their laid-off employees, the remaining employees are likely to feel that their firms see them as human beings rather than easily disposable tools. Restitution to laid-off employees, when seen as being done out of guilt, is likely to be interpreted as an indication of firm leaders' genuine care for their employees. As a result, employees are likely to expect that firm leaders will attend to their well-being not only when they are employed but also after they are laid off. Employees tend to develop stronger organizational identification when firms value them and care about their well-being to a greater extent (Edwards & Peccei, 2010). Externally, one challenge for corporate philanthropy is the cynical view held by the public that firms engage in philanthropy merely for impression management to deflect public pressure rather than out of a genuine sense of care (Muller et al., 2014; Wang et al., 2020). When the public holds the belief that firms can engage in philanthropy out of guilt, firm leaders' expressions of guilt as their motivation for corporate philanthropy can help counter the cynical view to engender positive responses from the public (Cuypers et al., 2015), especially when their feeling of guilt comes across as genuine. From the perspective of the public, this study suggests a viable alternative to engage firms in corporate philanthropy. How to engage business corporations in addressing social woes has been hotly debated for decades (Margolis & Walsh, 2003). The public typically resorts to condemnation, protest, and boycott to pressure firms to make efforts to address social problems that they create. Based on our findings, the public can also appeal to firm leaders' guilt aroused by their harm-inflicting decisions and actions. To the extent that firm leaders can genuinely feel guilty, appealing to their guilt helps turn the engagement process into a conversation as opposed to a confrontation, thereby eliciting sincere and valuable philanthropical efforts from firms.

While establishing guilt as a potent driver of corporate philanthropy, our study also suggests that more research is needed to understand the complicated process through which guilt is aroused and translated into corporate philanthropy. First, for guilt to arise, one must be aware of the harm that one inflicts on others and feel responsible for it (Estrada-Hollenbeck & Heatherton, 1998). Our study alludes to one's awareness being influenced by the severity of harm, the motivation to ascertain harm to others, and proximity to the harmed. Study 1 touches on the first two factors. The severity of the harm inflicted by a particular privatized SOE in a local area functions as a highly significant moderator, suggesting that firms' harm-inflicting behaviors may not always arouse guilt or arouse only a weak sense of guilt due to the negligibility of the inflicted harm. We also partly allude to the motivation; for example, firm leaders' social connections with laid-off workers motivated them to concern themselves with the distress experienced by laid-off workers. Motivation can also be influenced by one's personality, as shown by Grant and Wrzesniewski (2010). Study 2 touches on proximity to the harmed; for example, when living in the same community or city, firm leaders could constantly see the suffering of laid-off SOE workers. Despite one's awareness, one also must feel responsible for the suffering of others. Study 1 alludes to this condition by showing that firm leaders felt responsible for the suffering of laid-off SOE workers only when they were actually involved in the privatization of their SOEs. Moreover, their sense of responsibility was also influenced by their moral values (i.e., Confucian values), suggesting that the arousal of guilt can be highly context dependent. Second, feeling guilty might not always translate into corporate philanthropy. Study 2 alludes to two barriers. One is the financial condition of firms. Several informants said that their firms started to engage in corporate philanthropy as restitution to laid-off workers only when their firms' financial condition improved. The other is firm leaders' views of corporate responsibility. While most of the informants held a broad view of corporate social responsibility, a few also held a narrow view, only focusing on producing products of good quality. This narrow view led them to see helping laid-off workers as the responsibility of the government despite their sympathy for laid-off workers. Views of corporate social responsibility are likely to vary across industries, cultures, and societies. These issues call for more systematic research than we could carry out in one study.

Strategic decisions and actions not only affect firms financially but also have emotional consequences for firm leaders, which can affect firms' subsequent strategic decisions and actions. This study established that firm leaders' guilt resulting from harm-inflicting strategic decisions and actions has a profound impact on corporate philanthropy. As corporate philanthropy becomes strategic to firms, we conjecture that guilt could also play a fundamental role in firms' strategic decisions and actions in general. For example, when observing that a particular strategic action inflicted serious harm on others, will firm leaders act out of guilt to avoid undertaking the same strategic action or be more careful when undertaking the action when it is unavoidable? Or will they act out of guilt to be more cautious about any strategic decisions or actions with a potential to inflict harm on others? How long will the influence of guilt last? Given individuals' strong tendency to alleviate or avoid guilt-invoked distress and dissonance (Ferguson et al., 1999), guilt can provide a strong motivation for strategic decisions and actions, yet it has been understudied in strategic management research. We hope that this study can usher in more research on the role of guilt in strategic processes.

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APPENDIX A
INTERVIEW QUESTIONS

The purpose of this interview is to gain a better understanding of the reformation of SOEs that started in the 1990s. We sincerely hope that you can share with us your valuable experience and opinions as a participant in this important social reform.

1. The *zhuadafangxiao* policy was proposed to guide the reformation of SOEs during the 15th Meeting of the Communist Party in 1997, and turning around SOEs in three years was set as a goal in 1998. What was your SOE like then with respect to production, revenue, profit, and employees?
2. How did your SOE meet the "three-year turnaround" goal? What were you mainly responsible for then in the reformation process?
3. There was a popular belief then: "Our SOEs, once founded, will never die. How can they die when they were born with the SOE "iron hat"? How can SOE employees lose their jobs when holding an iron bowl?" This "iron bowl" belief greatly impeded the reformation of SOEs. How did your SOE decide to lay off some employees? Did your SOE lay off employees through "buyouts" or other measures in order to meet the "three-year turnaround" goal? If yes, what was the scale of the layoffs?
4. News reports and research show that laid-off SOE workers mostly experienced a lot of difficulties. In the CCTV documentary about the life of laid-off SOE workers, Zhao Tuoshan, CEO of Chongqing Special Steel Corporation, said that he felt sorry for and even *nei jiu* (guilty) of laying off SOE employees as a leader involved in the reformation of an SOE. Do you think this was the general feeling of SOE leaders towards laying off SOE workers?
5. Did your firm seek to make restitution to laid-off SOE workers when the financial situation of your firm improved? If yes, what specific restitutions did your firm make?
6. How did experiencing the layoff of SOE workers change your view of corporate philanthropy? Did this experience influence your firm's investments in corporate philanthropy? If yes, based on your observation, do you think this influence on corporate philanthropy practices was general among reformed SOEs?

APPENDIX B
VIGNETTE EXPERIMENT

The continuous development of the market economy since 1978 made it increasingly difficult for SOEs to compete due to their inefficiency. In 1997, General Secretary of the Communist Party Jiang Zemin rolled out the *zhuadafangxiao* policy for reforming SOEs. A great number of SOEs were privatized. Remaining and privatized SOEs sought to enhance their efficiency by cutting back on redundant personnel, resulting in the massive layoff of over 46 million workers. It was extremely hard for these laid-off SOE workers to find new jobs given their age, skills, education, and so on. Most could only do low-skill labor and find low-income jobs such as cleaning, street hawking, and repairing. Their financial distress also resulted in their mental distress, making them go through the "dark age" of their life. Chairman Chang Chuande of the former Qingdao Port Conglomeration said: "I can never forget that when passing by the morning market in a cold winter, I saw many laid-off SOE workers shaking in extremely cold wind while trying to make a little money to support their families. Any single worker had three families depending on him, his own small family and the two big families on both sides (i.e., the husband's and the wife's parents). When laid off, his three families suffered and became lifeless. Besides suffering from financial distress, more importantly, he could not see hope." Please watch the following short video for the life of laid-off SOE workers (available upon request).

Attention checking (subjects cannot see this subtitle)

1. The short paragraph describes (choose 3 right answers): A. The historical background of the SOE privatization; B. The difficult situation of many laid-off SOE workers; C. The achievement of the reform since 1978; D. Firm leaders caring for employees.
2. The short video describes (choose 3 right answers): A. SOE workers bearing the cost of reform; B. All walks of life celebrating the reform; C. The exploration of the nation and the people in the reform; D. The difficult life of laid-off SOE workers.

   Subjects are randomly assigned into treatment and control condition (subjects cannot see this subtitle)
   Treatment condition: Now suppose that you took over an SOE and privatized it during this SOE reformation period. In order to turn around this firm, you decided to lay off many workers. These laid-off workers all experienced difficulties as described in the short paragraph and the short video above. Based on this condition, please answer the following questions.
   Control condition: Now suppose that you took over an SOE and privatized it during this SOE reformation period. You tried your best to complete the privatization of your firm without laying off a single worker. Based on this condition, please answer the following question.

   When observing the distress experienced by laid-off SOE workers, to what extent would you feel the following towards them? (1 = *absolutely disagree* – 7 = *absolutely agree*)

3. I would feel really bad for the distress of laid-off SOE workers.
4. I cannot help thinking of the distress of laid-off SOE workers.
5. The distress of laid-off workers would make me remorseful.
6. I would blame myself for and feel guilty about the distress of laid-off SOE workers.
7. I would express my apology for the distress of laid-off SOE workers.

   Treatment/control condition. Now suppose again that you successfully turned around the SOE you took over. The firm is now in a great shape, developing really well, and earning substantial profits. Given this condition of your firm, the distress of laid-off SOE workers is likely to make you (as the leader of your firm) do the following: (1 = *absolutely disagree* – 7 = *absolutely agree*)

8. I want to help laid-off SOE workers as a social group.
9. I want to help disadvantaged and underprivileged social groups.
10. I want to assume more social responsibility to improve the lives of laid-off SOE workers.
11. I want to engage in more philanthropy to help those in need.
12. Businesses should assume more social responsibility.
13. Business decisions need to take into account more social responsibility.
14. When doing philanthropy, I cannot help thinking of the distress of laid-off SOE workers back then.